
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-1469



CHURCHILL DOWNS
INCORPORATED
(Exact name of registrant as specified in its charter)

Kentucky
(State or other jurisdiction of
incorporation or organization)

61-0156015
(IRS Employer
Identification No.)

700 Central Avenue, Louisville, Kentucky 40208
(Address of principal executive offices) (zip code)

(502) 636-4400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of registrant's common stock at April 28, 2008 was 13,673,388 shares.

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****CHURCHILL DOWNS INCORPORATED**
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited) (in thousands)

	<u>March 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 22,128	\$ 15,345
Restricted cash	4,506	11,295
Accounts receivable, net of allowance for doubtful accounts of \$1,381 in 2008 and \$1,358 in 2007	32,588	46,335
Deferred income taxes	6,497	6,497
Income taxes receivable	12,741	13,414
Other current assets	17,422	10,396
Total current assets	<u>95,882</u>	<u>103,282</u>
Plant and equipment, net	364,526	357,986
Goodwill	115,349	108,349
Other intangible assets, net	34,841	39,087
Other assets	15,444	16,112
Total assets	<u>\$626,042</u>	<u>\$ 624,816</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 31,632	\$ 32,032
Purses payable	8,920	12,816
Accrued expenses	48,259	43,788
Dividends payable	—	6,750
Deferred revenue	48,730	25,455
Total current liabilities	<u>137,541</u>	<u>120,841</u>
Long-term debt	50,000	67,989
Convertible note payable, related party	14,339	14,234
Other liabilities	20,737	20,452
Deferred revenue	19,680	19,680
Deferred income taxes	14,062	14,062
Total liabilities	<u>256,359</u>	<u>257,258</u>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock; no par value; 250 shares authorized; no shares issued	—	—
Common stock; no par value; 50,000 shares authorized; 13,673 shares issued March 31, 2008 and 13,672 shares issued December 31, 2007	139,144	137,761
Retained earnings	230,539	229,797
Total shareholders' equity	<u>369,683</u>	<u>367,558</u>
Total liabilities and shareholders' equity	<u>\$626,042</u>	<u>\$ 624,816</u>

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS)
for the three months ended March 31,
(Unaudited)
(in thousands, except per common share data)

	<u>2008</u>	<u>2007</u>
Net revenues	\$ 65,721	\$ 47,842
Operating expenses	68,184	52,925
Selling, general and administrative expenses	12,157	9,825
Insurance recoveries	<u>(17,200)</u>	<u>(784)</u>
Operating income (loss)	2,580	(14,124)
Other income (expense):		
Interest income	177	272
Interest expense	(901)	(290)
Equity in loss of unconsolidated investments	(830)	(299)
Miscellaneous, net	<u>372</u>	<u>663</u>
	<u>(1,182)</u>	<u>346</u>
Earnings (loss) from continuing operations before (provision) benefit for income taxes	1,398	(13,778)
Income tax (provision) benefit	<u>(563)</u>	<u>5,348</u>
Net earnings (loss) from continuing operations	835	(8,430)
Discontinued operations, net of income taxes:		
(Loss) earnings from operations	(93)	421
Loss on sale of business	<u>—</u>	<u>(182)</u>
Net earnings (loss)	<u>\$ 742</u>	<u>\$ (8,191)</u>
Basic		
Net earnings (loss) from continuing operations	\$ 0.06	\$ (0.63)
Discontinued operations	<u>(0.01)</u>	<u>0.02</u>
Net earnings (loss)	<u>\$ 0.05</u>	<u>\$ (0.61)</u>
Diluted		
Net earnings (loss) from continuing operations	\$ 0.06	\$ (0.63)
Discontinued operations	<u>(0.01)</u>	<u>0.02</u>
Net earnings (loss)	<u>\$ 0.05</u>	<u>\$ (0.61)</u>
Weighted average shares outstanding		
Basic	13,522	13,371
Diluted	14,010	13,371

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended March 31,
(Unaudited) (in thousands)

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net earnings (loss)	\$ 742	\$ (8,191)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,155	4,976
Loss on sale of business	—	297
Equity in loss of unconsolidated investments	830	299
Share-based compensation	1,331	333
Other	(50)	(137)
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of business acquisitions		
Restricted cash	7,607	11,334
Accounts receivable	6,324	11,380
Other current assets	(7,027)	(5,920)
Income taxes receivable	678	(6,613)
Accounts payable	2,341	(7,093)
Purses payable	(3,896)	(5,632)
Accrued expenses	(2,722)	(7,335)
Deferred revenue	30,698	28,472
Other assets and liabilities	498	3,562
Net cash provided by operating activities	<u>44,509</u>	<u>19,732</u>
Cash flows from investing activities:		
Additions to plant and equipment	(8,647)	(11,533)
Purchases of minority investments	(602)	(61)
Proceeds from sale of business, net of cash sold	—	(8,897)
Proceeds on sale of plant and equipment	—	150
Change in deposit wagering asset	(819)	—
Net cash used in investing activities	<u>(10,068)</u>	<u>(20,341)</u>
Cash flows from financing activities:		
Borrowings on bank line of credit	56,438	68,964
Repayments of bank line of credit	(74,427)	(63,814)
Change in deposit wagering liability	433	—
Change in book overdraft	(3,401)	—
Payments of dividends	(6,750)	(6,670)
Windfall tax benefit from share-based compensation	13	367
Common stock issued	36	1,317
Net cash (used in) provided by financing activities	<u>(27,658)</u>	<u>164</u>
Net increase (decrease) in cash and cash equivalents	6,783	(445)
Cash and cash equivalents, beginning of year	15,345	28,072
Cash and cash equivalents, end of year	<u>\$ 22,128</u>	<u>\$ 27,627</u>

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended March 31,
(Unaudited) (in thousands)

	<u>2008</u>	<u>2007</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$886	\$ 235
Income taxes	\$ 35	\$ —
Schedule of non-cash activities:		
Plant and equipment additions included in accounts payable and accrued expenses	\$229	\$1,497
Assignment of notes receivable	\$—	\$4,000

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements are presented in accordance with the requirements of this Quarterly Report on Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in Churchill Downs Incorporated's (the "Company") Annual Report on Form 10-K. The year-end Condensed Consolidated Balance Sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 for further information. The accompanying Condensed Consolidated Financial Statements have been prepared in accordance with the Company's customary accounting practices and have not been audited.

In the opinion of management, all adjustments necessary for a fair presentation of this information have been made, and all such adjustments are of a normal, recurring nature.

The Company's revenues and earnings are significantly influenced by its racing calendar. Therefore, revenues and operating results for any interim quarter are generally not indicative of the revenues and operating results for the year and may not be comparable with results for the corresponding period of the previous year. The Company historically has had fewer live racing days during the first quarter, with a majority of its live racing occurring in the second, third and fourth quarters, including the running of the Kentucky Derby and the Kentucky Oaks during the second quarter, the quarter during which the Company typically generates the majority of its annual operating income. However, the Company had 57 live racing days during the first quarter of 2008, which compares to 60 live racing days during the first quarter of 2007.

Comprehensive Earnings (Loss)

The Company had no other components of comprehensive earnings (loss) and, as such, comprehensive earnings (loss) is the same as net earnings (loss) as presented in the accompanying Condensed Consolidated Statements of Net Earnings (Loss).

NOTE 2 — ACQUISITIONS AND NEW VENTURES

On June 11, 2007, the Company completed its acquisition of certain assets of AmericaTab ("ATAB"), Bloodstock Research Information Services, Inc. ("BRIS") and the Thoroughbred Sports Network, Inc. ("TSN") (collectively, "ATAB and BRIS") for an aggregate purchase price of \$80 million, plus potential earn-out payments of up to \$7 million, which is based upon the financial performance of the operations of the advance deposit wagering ("ADW") business during the five years ended June 30, 2012. As of March 31, 2008, the Company accrued the entire earn-out payment of \$7.0 million as additional goodwill based on its determination that defined financial performance conditions will be achieved at some point prior to June 30, 2012. The transaction includes the acquisition of the following ADW platforms: winticket.com, BrisBet.com and TsnBet.com. Through these transactions, the Company has also acquired the operations of two industry-leading data services companies, BRIS and TSN, which produce handicapping and pedigree reports that are sold to racetracks, horse owners and breeders, horse players and racing-related publications. The primary reason for these acquisitions was to invest in assets with an expected yield on investment, as well as to enter one of the fastest growing segments of the pari-mutuel wagering industry. During the fourth quarter of 2007, the Company merged the ATAB ADW business with TwinSpires, an internally developed ADW business, thereby establishing a single ADW brand.

Pro Forma

The following table illustrates the effect on net revenues from continuing operations, net earnings (loss) from continuing operations, and net earnings (loss) from continuing operations per common share as if the Company had consummated the acquisitions of ATAB and BRIS as of the beginning of the period presented. The pro forma results have been prepared for comparative purposes only and do not purport to be indicative of the results of operations that would have occurred had the acquisitions of ATAB and BRIS been consummated at the beginning of the three months ended March 31, 2007.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Three Months March 31, 2007
Net revenues from continuing operations	\$ 61,760
Net loss from continuing operations	\$ (7,541)
Net loss from continuing operations per common share:	
Basic	\$ (0.56)
Diluted	\$ (0.56)
Shares used in computing loss from continuing operations per common share:	
Basic	13,371
Diluted	13,371

NOTE 3 — INSURANCE RECOVERIES

On August 29, 2005, Hurricane Katrina caused significant damage to the metropolitan New Orleans, Louisiana area. During the three months ended March 31, 2008, the Company received \$11.5 million of insurance recoveries related to a claim for this damage. An additional \$5.7 million was received during April 2008, which represented the final payment of all outstanding property and business interruption claims related to this damage. As a result, \$17.2 million of the insurance recoveries was included in the Company's Condensed Consolidated Statement of Net Earnings (Loss) for the three months ended March 31, 2008.

NOTE 4 — SETTLEMENT WITH EP ACQUISITION, LLC

The Company has reached an agreement with EP Acquisition, LLC to settle certain disputes arising out of the sale of Ellis Park pursuant to the Stock Purchase Agreement, which resulted in a payment of \$2.0 million to EP Acquisition, LLC representing a reduction to the original purchase price.

NOTE 5 — LONG-TERM INCENTIVE PLAN

During March 2008, the Board of Directors approved the Terms and Conditions of Performance Share Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan (the "Company LTIP") as well as the Terms and Conditions of Performance Share Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan for Employees of TwinSpires (the "TwinSpires LTIP"). The objective of the Company LTIP and the TwinSpires LTIP is to support the entrepreneurial mindset desired by management by providing an opportunity to earn significant equity in the Company for achieving significant performance targets.

In accordance with the Company LTIP, participants earn performance share awards over a five year period (2008 through 2012) that are paid in either cash or stock of the Company, at the discretion of the Company, based on performance targets achieved by the Company as well as the participant. Performance targets of the Company are predetermined Company EBITDA (defined as earnings before interest, taxes, depreciation and amortization) goals for each year during the term of the Company LTIP. Performance targets of the participants are defined as substantial contributions to the performance and strategic improvement of the Company.

In accordance with the TwinSpires LTIP, participants earn performance share awards over a four year period (2008 through 2011) that are paid in either cash or stock of the Company, at the discretion of the Company, based on performance targets achieved by TwinSpires. Performance targets of TwinSpires are predetermined TwinSpires EBITDA goals for each year during the term of the TwinSpires LTIP.

During the first quarter subsequent to each year during the term of each of the Company LTIP and the TwinSpires LTIP, performance share awards denominated in either cash or stock are awarded to participants based on assessment of the achievement of performance targets. Such awards have varying service conditions and vest on a quarterly basis. During the three months ended March 31, 2008, the Company recorded \$0.3 million of compensation expense related to the Company LTIP and the TwinSpires LTIP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 — GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS IMPAIRMENT TEST

Goodwill and indefinite-lived intangible assets are tested for impairment on an annual basis in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 142, “Goodwill and Other Intangible Assets.” In assessing whether goodwill is impaired, the fair market value of the related reporting unit is compared to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair market value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test consists of comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized equal to such excess. The implied fair value of goodwill is determined in the same manner as when determining the amount of goodwill recognized in a business combination. The Company completed the required annual impairment tests of goodwill and indefinite lived intangible assets during the three months ended March 31, 2008, and no adjustment to the carrying value of goodwill or indefinite-lived intangible assets was required.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 — EARNINGS PER SHARE

The following is a reconciliation of the numerator and denominator of the earnings (loss) from continuing operations per common share computations (in thousands, except per share data):

	Three Months Ended March 31,	
	2008	2007
Numerator for basic net earnings (loss) from continuing operations per common share:		
Net earnings (loss) from continuing operations	\$ 835	\$ (8,430)
Net earnings (loss) from continuing operations allocated to participating securities	(27)	—
Numerator for basic net earnings (loss) from continuing operations per common share	<u>\$ 808</u>	<u>\$ (8,430)</u>
Numerator for basic net earnings (loss) per common share:		
Net earnings (loss)	\$ 742	\$ (8,191)
Net earnings (loss) allocated to participating securities	(24)	—
Numerator for basic net earnings (loss) per common share	<u>\$ 718</u>	<u>\$ (8,191)</u>
Numerator for diluted net earnings (loss) per common share:		
Net earnings (loss) from continuing operations	\$ 835	\$ (8,430)
Discontinued operations, net of income taxes	(93)	239
Net earnings (loss)	<u>\$ 742</u>	<u>\$ (8,191)</u>
Denominator for net earnings (loss) per common share:		
Basic	13,522	13,371
Plus dilutive effect of stock options	35	—
Plus dilutive effect of convertible note	453	—
Diluted	<u>14,010</u>	<u>13,371</u>
Earnings (loss) per common share:		
Basic		
Net earnings (loss) from continuing operations	\$ 0.06	\$ (0.63)
Discontinued operations	(0.01)	0.02
Net earnings (loss)	<u>\$ 0.05</u>	<u>\$ (0.61)</u>
Diluted		
Net earnings (loss) from continuing operations	\$ 0.06	\$ (0.63)
Discontinued operations	(0.01)	0.02
Net earnings (loss)	<u>\$ 0.05</u>	<u>\$ (0.61)</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Options to purchase approximately 17 thousand shares for the three months ended March 31, 2008 were not included in the computation of earnings per common share assuming dilution because the options' exercise prices were greater than the average market price of the common shares. Options to purchase 29 thousand shares for the three months ended March 31, 2007 are excluded from the computation of diluted net loss from continuing operations per common share since their effect is antidilutive because of net losses for the period. Also, 453 thousand shares issuable upon conversion of notes payable for the three months ended March 31, 2007 are excluded from the computation of diluted net loss from continuing operations per common share since their effect is antidilutive because of net losses for this period.

NOTE 8 — SEGMENT INFORMATION

The Company has determined that it currently operates in the following five segments: (1) Churchill Downs Racetrack ("Churchill Downs"), which includes its on-site simulcast facility and its training facility; (2) Calder Race Course ("Calder"); (3) Arlington Park and its eleven OTBs; (4) Louisiana Operations, including Fair Grounds, its slot operations and its ten OTBs; and (5) Other Investments, including Churchill Downs Simulcast Productions, TwinSpires, ATAB and BRIS and the Company's various equity interests, including TrackNet, HRTV and Racing World Limited. Eliminations include the elimination of intersegment transactions.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" in Note 1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The Company uses revenues and EBITDA as key performance measures of the results of operations for purposes of evaluating performance internally. Furthermore, management believes that the use of these measures enables management and investors to evaluate and compare from period to period, the Company's operating performance in a meaningful and consistent manner. Because the Company uses EBITDA as a key performance measure of financial performance, the Company is required by accounting principles generally accepted in the United States of America to provide the information in this footnote concerning EBITDA. However, these measures should not be considered as an alternative to, or more meaningful than, net earnings (as determined in accordance with accounting principles generally accepted in the United States of America) as a measure of the Company's operating results or cash flows (as determined in accordance with accounting principles generally accepted in the United States of America) or as a measure of the Company's liquidity.

During the year ended December 31, 2007, the Company modified its method of allocating management fees to the operating segments. As a result, management fees included in EBITDA of the operating segments fluctuated significantly between the three months ended March 31, 2008 and 2007. The table below presents management fee (expense) income included in EBITDA of each of the operating segments for the three months ended March 31, 2008 and 2007 (in thousands):

	Three months ended	
	March 31,	
	2008	2007
Churchill Downs	\$ (199)	—
Arlington Park	(97)	—
Calder	(222)	\$ (78)
Louisiana Operations	(2,545)	(3,380)
Other Investments	(1,101)	—
Corporate	5,064	3,458
Total	<u>\$ —</u>	<u>\$ —</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The table below presents information about reported segments for the three months ended March 31, 2008 and 2007 (in thousands):

	Three Months Ended	
	March 31,	
	2008	2007
Net revenues from external customers:		
Churchill Downs	\$ 2,469	\$ 3,296
Arlington Park	13,013	13,190
Calder	2,917	1,198
Louisiana Operations	32,910	29,479
Total racing operations	51,309	47,163
Other Investments	14,258	121
Corporate	154	510
Net revenues from continuing operations	65,721	47,794
Discontinued operations	—	7,837
	<u>\$65,721</u>	<u>\$55,631</u>
Intercompany net revenues:		
Churchill Downs	\$ 173	\$ —
Arlington Park	210	—
Calder	21	7
Louisiana Operations	837	230
Total racing operations	1,241	237
Other Investments	355	96
Eliminations	(1,596)	(285)
Net revenues from continuing operations	—	48
Discontinued operations	—	(48)
	<u>\$ —</u>	<u>\$ —</u>
EBITDA:		
Churchill Downs	\$ (6,170)	\$ (5,726)
Arlington Park	(2,837)	(2,090)
Calder	(3,292)	(2,572)
Louisiana Operations	22,476	2,766
Total racing operations EBITDA	10,177	(7,622)
Other Investments	1,407	(905)
Corporate	(2,307)	(313)
Total EBITDA	9,277	(8,840)
Eliminations	—	56
Depreciation and amortization	(7,155)	(4,976)
Interest income (expense), net	(724)	(18)
Income tax (expense) benefit	(563)	5,348
Net earnings (loss) from continuing operations	835	(8,430)
Discontinued operations, net of income taxes	(93)	239
Net earnings (loss)	<u>\$ 742</u>	<u>\$ (8,191)</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The table below presents total asset information about reported segments (in thousands):

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Total assets:		
Churchill Downs	\$ 347,674	\$ 354,340
Calder	94,970	101,961
Arlington Park	89,903	91,806
Louisiana Operations	114,097	107,325
Other Investments	254,550	239,739
	<u>\$ 901,194</u>	<u>\$ 895,171</u>
Eliminations	(275,152)	(270,355)
	<u>\$ 626,042</u>	<u>\$ 624,816</u>
	Three Months Ended	
	March 31,	
	<u>2008</u>	<u>2007</u>
Capital expenditures, net:		
Churchill Downs	\$ 1,256	\$ 1,623
Calder	591	886
Arlington Park	414	5,637
Louisiana Operations	4,332	2,824
Other Investments	2,054	563
	<u>\$ 8,647</u>	<u>\$ 11,533</u>

NOTE 9 — RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SFAS No. 157, Fair Value Measurements (“SFAS No. 157”) establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. Issued in February 2008, Financial Accounting Standards Board Staff Position (“FSP”) No. 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, removed leasing transactions accounted for under SFAS No. 13, Accounting for Leases and related guidance from the scope of SFAS No. 157. FSP No. 157-2, Partial Deferral of the Effective Date of Statement 157, deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008.

The Company adopted the SFAS No. 157 as of January 1, 2008 for financial assets and financial liabilities and there was no impact on the Company’s consolidated financial condition and results of operations for the three months ended March 31, 2008. The Company is currently assessing the impact of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities on its consolidated financial position and results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information set forth in this discussion and analysis contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. The reader is cautioned that such forward-looking statements are based on information available at the time and/or management's good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Forward-looking statements are typically identified by the use of terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "should," "will," and similar words, although some forward-looking statements are expressed differently. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from expectations include: the effect of global economic conditions; the effect (including possible increases in the cost of doing business) resulting from future war and terrorist activities or political uncertainties; the economic environment; the impact of increasing insurance costs; the impact of interest rate fluctuations; the effect of any change in our accounting policies or practices; the financial performance of our racing operations; the impact of gaming competition (including lotteries and riverboat, cruise ship and land-based casinos) and other sports and entertainment options in those markets in which we operate; the impact of live racing day competition with other Florida and Louisiana racetracks within those respective markets; costs associated with our efforts in support of alternative gaming initiatives; costs associated with customer relationship management initiatives; a substantial change in law or regulations affecting pari-mutuel and gaming activities; a substantial change in allocation of live racing days; changes in Illinois law that impact revenues of racing operations in Illinois; the presence of wagering facilities of Indiana racetracks near our operations; our continued ability to effectively compete for the country's top horses and trainers necessary to field high-quality horse racing; our continued ability to grow our share of the interstate simulcast market and obtain the consents of horsemen's groups to interstate simulcasting; our ability to execute our acquisition strategy and to complete or successfully operate planned expansion projects; our ability to successfully complete any divestiture transaction; our ability to execute on our temporary and permanent slot facilities in Louisiana; market reaction to our expansion projects; the loss of our totalisator companies or their inability to provide us assurance of the reliability of their internal control processes through Statement on Auditing Standards No. 70 audits or to keep their technology current; the need for various alternative gaming approvals in Louisiana; our accountability for environmental contamination; the loss of key personnel; the impact of natural disasters, including Hurricanes Katrina, Rita and Wilma on our operations and our ability to adjust the casualty losses through our property and business interruption insurance coverage; any business disruption associated with a natural disaster and/or its aftermath; our ability to integrate businesses we acquire, including our ability to maintain revenues at historic levels and achieve anticipated cost savings; the impact of wagering laws, including changes in laws or enforcement of those laws by regulatory agencies; the effect of claims of third parties to intellectual property rights; and the volatility of our stock price.

You should read this discussion in conjunction with the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q and the Company's Annual Report on Form 10-K for the year ended December 31, 2007 for further information, including Part I – Item 1A, "Risk Factors" for a discussion regarding some of the reasons that actual results may be materially different from those we anticipate, as modified by Part II – Item 1A of this Quarterly Report on Form 10-Q.

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Overview

We are a leading multi-jurisdictional owner and operator of pari-mutuel wagering properties and businesses. Additionally, we offer gaming products through our slot and video poker operations in Louisiana.

We operate the Churchill Downs Racetrack (“Churchill Downs”) in Louisville, Kentucky, which has conducted thoroughbred racing since 1875 and is internationally known as the home of the Kentucky Derby. We also own and operate Arlington Park, a thoroughbred racing operation in Arlington Heights, Illinois; Calder Race Course (“Calder”), a thoroughbred racing operation in Miami Gardens, Florida; Fair Grounds Race Course and Slots (“Fair Grounds”), a thoroughbred racing operation in New Orleans, Louisiana, which also owns and operates 245 slot machines; and Video Services Inc. (“VSI”), the owner and operator of more than 700 video poker machines in Louisiana. We conduct simulcast wagering on horse racing at 22 simulcast wagering facilities in Kentucky, Illinois and Louisiana, as well as at our four racetracks.

During 2007, we sold our ownership interest in Hoosier Park. We made the decision to sell Hoosier Park in order to dispose of an asset which we considered to be underperforming and to provide us with additional opportunities and resources to focus on our other assets and operations. As of the date of the filing of this Quarterly Report on Form 10-Q, we do not anticipate further dispositions of our operations. The sold business discussed above has been accounted for as discontinued operations in our Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q. Please refer to further sections of Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this Item 2 as well as our Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for further details regarding the disposition.

Recent Developments

Horsemen’s Consent to Distribute Racing Signals

The Thoroughbred Horsemen’s Group LLC (the “THG”), an alliance of approximately seventeen horsemen’s groups covering over 45 racetracks, including Churchill Downs and Calder, has been appointed agent on behalf of such horsemen’s groups for the purpose of negotiating agreements with the Company related to sharing revenues on advance deposit wagering (“ADW”) activity. Recently, THG has expressed interest in negotiating an agreement with the Company and its ADW business, TwinSpires, to provide approximately one-third of gross ADW wagering commissions to horsemen’s groups that they represent, which is significantly higher than amounts returned to horsemen’s groups currently.

Until a resolution to this issue is found, the Florida Horsemen’s Benevolent and Protective Association, Inc. (the “Florida HBPA”) and horsemen’s groups in Kentucky, Ohio, Maryland and Delaware have indicated they are withholding their consent under the Interstate Horseracing Act of 1978 (the “IHA”) to import or export (as applicable) racing signals to or from Calder and the export of racing signals from Churchill Downs to ADW businesses. In addition, the Florida HBPA has refused to negotiate an agreement with Calder for the allocation of pari-mutuel wagering revenues unless we reach agreement in the allocation of slot revenues from the yet-to-be constructed slots facility. As a result, beginning with the commencement of the Calder racing meet on April 21, 2008, no export of racing signals has been made from Calder to simulcasting outlets outside the state of Florida, except an off-track betting facility (“OTB”) located in New York. In addition, beginning with the commencement of the Churchill Downs racing meet on April 26, 2008, no export of racing signals has been made from Churchill Downs to any ADW business or Calder. However, Kentucky horsemen’s groups have consented to the export of racing signals of the Kentucky Oaks, Kentucky Derby and Woodford Reserve Race Classic races. In connection with these matters, we filed suit against the THG and Florida HBPA in the Western District of Kentucky on April 24, 2008. Please refer to Legal Proceedings in Item 1 of Part II of this Quarterly Report on Form 10-Q. As a result of the aforementioned actions taken by horsemen’s groups, net revenues of the operating segments of Calder, Other Investments, and Churchill Downs have begun to be materially, adversely impacted during the second quarter. We will continue to experience such trends until an agreement with our horsemen’s groups can be reached. In addition, we do not plan to start construction of a slots facility at Calder until the issues with the Florida HBPA are resolved.

Insurance Recoveries

On March 10, 2008, we entered into a final settlement agreement and release with our excess property insurance carriers relating to our outstanding claims from Hurricane Katrina. The agreed upon settlement amount of \$17.2 million will cover all outstanding property and business interruption claims. During the three months ended March 31, 2008, we received \$11.5 million, and we received the final payment of \$5.7 million during April 2008.

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Settlement with EP Acquisition LLC

We have reached an agreement with EP Acquisition, LLC to settle certain disputes arising out of the sale of Ellis Park pursuant to the Stock Purchase Agreement, which resulted in a payment of \$2.0 million to EP Acquisition, LLC representing a reduction to the original purchase price.

Dissolution of Racing World Limited

Racing World Limited, a venture formed April 6, 2006 between RWHC, LLC, a wholly-owned subsidiary of Churchill Downs Incorporated, Magna Entertainment Corporation (“MEC”) and Racing UK Limited, was dissolved on April 30, 2008. As of April 30, 2008, Churchill Downs Incorporated and MEC each regained their in-home video and wagering rights for distribution in the United Kingdom. The parties have mutually agreed to end the venture as a result of lower than expected handle in the United Kingdom.

Legislative and Regulatory Changes

Federal

WTO

In 2003, the country of Antigua filed a formal complaint against the United States with the World Trade Organization (“WTO”), challenging the United States’ ability to enforce certain Federal gaming laws (Sections 1084, 1952 and 1955 of Title 18 of the United States Code known as the Wire Act, the Travel Act and the Illegal Gambling Business Act, respectively, and collectively the “Acts”) against foreign companies that were accepting Internet wagers from United States residents. At issue was whether the United States’ enforcement of the Acts against foreign companies violated the General Agreement on Trade in Services (“GATS”). On January 25, 2007, the WTO compliance panel issued its interim finding in response to a brief report submitted by the U.S. delegation to the WTO to the Chairman of the Dispute Settlement Body (the “U.S. Report”) and found that the United States has failed to comply with previous WTO rulings regarding restrictions on access to the U.S. Internet gaming market. On March 30, 2007, the final report was issued upholding all lower panel decisions. On May 4, 2007, the United States Trade Representative (the “USTR”) announced that it had initiated the formal process by the United States of withdrawing its GATS commitment to clarify an error that it had made in 1994 by including gambling services in its schedule of commitments. The U.S. Government has made offers of compensation to WTO members affected by the decision of the U.S. to rule out any market access commitments regarding cross-border gambling services. The European Union, Canada, Japan and Australia have agreed to the compensation package, and Costa Rica settled after initially requesting arbitration. In December 2007, the WTO arbitrators awarded Antigua the right to impose sanctions against United States’ intellectual property, including copyrights, trademarks and patents, up to an annual amount of \$21.0 million. The arbitrators’ award is not subject to appeal under WTO rules. The U.S. withdrawal will become effective once the remaining Antigua arbitration is concluded, which is expected to occur during June 2008.

The USTR has made no specific statement regarding how this will impact interstate gambling in horse racing. One of the options available to Congress and the White House is to prohibit or restrict substantially the conduct of interstate simulcast wagering or advance deposit wagering. If the U.S. government elects to take such an approach (including through any action by the Department of Justice), it will have a material, adverse impact on our business, financial condition and results of operations.

Other Federal Legislation/Regulation

On October 13, 2006, President Bush signed into law “The Unlawful Internet Gambling Enforcement Act of 2006 (“UIGEA”).” This act prohibits those involved in the business of betting or wagering from accepting any financial instrument, electronic or otherwise, for deposit that is intended to be utilized for unlawful Internet gambling. This act declares that nothing in the act may be construed to prohibit any activity allowed by the IHA. Under this act, the Secretary of the Treasury has issued proposed rules and regulations to implement requirements of the act. During April 2008, Representative Barney Frank (D-Mass) introduced legislation prohibiting the Secretary of the Treasury from promulgating any regulations in connection with this legislation due to the difficulty that financial institutions will have in implementing the law’s requirements.

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Illinois

Arlington Park will continue to seek authority to conduct gaming at the racetrack. The 2007 session of the Illinois legislature ended without enactment of legislation permitting expanded gaming at the racetrack. Legislation allowing slot machines at Illinois racetracks is expected to be introduced as part of a capital spending plan during 2008. At this point, it is too early to determine whether those initiatives will be successful. Separate legislation clarifying rules for advance deposit wagering has been introduced and approved by the state senate. It is too early to determine whether this legislation will be approved by the house of representatives.

Kentucky

The 2008 session of the general assembly concluded April 15, 2008. The Kentucky horse industry sought legal authority to offer alternative forms of gaming at Kentucky's eight existing racetracks. Alternative forms of gaming would enable our Kentucky racetrack to better compete with neighboring gaming venues by providing substantial new revenues for purses and capital improvements. Governor Steve Beshear supported this expansion and unveiled his plan on February 14, 2008, which would have permitted Churchill Downs to operate a casino in Jefferson County, Kentucky. The legislation, which would have required a public referendum in the fall of 2008, was ultimately unsuccessful. A referendum may be approved during any regular session of the general assembly and may be placed on the ballot of a general election in even-numbered years.

Louisiana

Fair Grounds was recently granted six additional race days for its 2008-2009 thoroughbred racing meet. As a result, the total race days for the upcoming racing meet will be 87 days compared to 81 days during 2007-2008.

Fair Grounds is also currently working with the State Racing Commission and the State Legislature to determine whether it will be required to run a quarter horse meet in 2008. The quarter horse meet is required to be run in connection with our slots license. Due to the limited quarter horse purses generated from our temporary slots facility, we do not yet know if we will be running a five day meet in 2008 or whether this purse money will be carried over to a meet to be run during 2009.

Indiana

The 2007 Indiana General Assembly approved the operation of slot machines at Indiana's horse racetracks. The Governor of Indiana signed this legislation into law. Each racetrack is granted permission to operate up to 2,000 slot machines. In order to operate these slot machines, Hoosier Park paid a \$150 million licensing fee prior to November 1, 2007 and will be required to invest \$100 million in capital improvements and pay an additional \$100 million licensing fee by November 1, 2008. We completed the sale of our interest in Hoosier Park on March 30, 2007. As part of that agreement, the Company is entitled to payments of up to \$15 million once slot machines are operational. Hoosier Park officials have begun the construction of a new slot facility, which is expected to open in June 2008.

Critical Accounting Policies

Our Condensed Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States. Accordingly, we are required to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our company and the industry as a whole and information available from other outside sources. Our estimates affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those initial estimates.

Our most significant estimates relate to the valuation of plant and equipment, receivables, goodwill and other intangible assets, which may be significantly affected by changes in the regulatory environment in which we operate, and to the aggregate costs for self-insured liability and workers' compensation claims. Additionally, estimates are used for determining income tax liabilities.

We evaluate our goodwill, intangible and other long-lived assets in accordance with the application of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For goodwill and intangible assets, we review the carrying values at least annually during the first quarter of each year or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. We completed the required annual impairment tests of goodwill and indefinite lived intangible assets as of March 31, 2008, and no adjustment to the carrying value of these assets was required. We assign estimated useful lives to our intangible assets based on the period of time the asset is expected to contribute directly or indirectly to future cash flows. We consider certain factors when assigning useful lives such as legal, regulatory, competition and other economic factors. Intangible assets with finite lives are amortized using the straight-line method.

RESULTS OF CONTINUING OPERATIONS**Pari-Mutuel Handle by Segment**

The table below presents pari-mutuel financial handle data by our reported segments for the three months ended March 31, 2008 and 2007 (in thousands):

	Three Months Ended March 31,		Change	
	2008	2007	\$	%
Churchill Downs				
Total handle	\$ 19,552	\$ 22,022	\$ (2,470)	-11%
Net pari-mutuel revenues	\$ 2,152	\$ 2,736	\$ (584)	-21%
Commission %	11.0%	12.4%		
Arlington Park				
Total handle	\$102,632	\$102,661	\$ (29)	—
Net pari-mutuel revenues	\$ 12,644	\$ 12,218	\$ 426	3%
Commission %	12.3%	11.9%		
Calder				
Total handle	\$ 38,168	\$ 10,578	\$ 27,590	261%
Net pari-mutuel revenues	\$ 2,580	\$ 930	\$ 1,650	177%
Commission %	6.8%	8.8%		
Louisiana Operations				
Total handle	\$280,854	\$306,178	\$ (25,324)	-8%
Net pari-mutuel revenues	\$ 18,801	\$ 20,467	\$ (1,666)	-8%
Commission %	6.7%	6.7%		
Other Investments				
Total handle	\$ 61,621	\$ —	\$ 61,621	100%
Net pari-mutuel revenues	\$ 12,281	\$ —	\$ 12,281	100%
Commission %	19.9%	—		
Eliminations				
Total handle	\$ (11,493)	\$ (7,228)	\$ (4,265)	-59%
Net pari-mutuel revenues	\$ (1,239)	\$ (238)	\$ (1,001)	-421%
Total				
Handle	\$491,334	\$434,211	\$ 57,123	13%
Net pari-mutuel revenues	\$ 47,219	\$ 36,113	\$ 11,106	31%
Commission %	9.6%	8.3%		

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The following table sets forth, for the periods indicated, certain operating data (in thousands, except per common share data and live race days):

	Three months ended		Change	
	March 31,		\$	%
	2008	2007		
Number of live race days	57	60	(3)	(5)%
Net pari-mutuel revenues	\$47,219	\$ 36,113	\$11,106	31%
Gaming	12,349	6,648	5,701	86%
Other operating revenues	6,153	5,081	1,072	21%
Total net revenues from continuing operations	\$65,721	\$ 47,842	\$17,879	37%
Operating income (loss)	\$ 2,580	\$ (14,124)	\$16,704	118%
Net earnings (loss) from continuing operations	\$ 835	\$ (8,430)	\$ 9,265	110%
Diluted net earnings (loss) from continuing operations per common share	\$ 0.06	\$ (0.63)		

Our total net revenues increased \$17.9 million primarily as a result of the performance of TwinSpires, our ADW business created by the acquisition of ATAB and BRIS and the launch of TwinSpires.com during 2007. In addition, we experienced increased revenues related to the opening of the temporary slot facility at Fair Grounds during 2007. These increases were partially offset by decreased revenues at Fair Grounds resulting from three fewer live racing days during the three months ended March 31, 2008 compared to the same period of 2007. Further discussion of net revenue variances by our reported segments is detailed below.

Consolidated Expenses

The following table is a summary of our consolidated expenses (in thousands):

	Three months ended		Change	
	March 31,		\$	%
	2008	2007		
Purse expense	\$ 17,959	\$17,141	\$ 818	5%
Depreciation and amortization	7,155	4,976	2,179	44%
Other operating expenses	43,070	30,808	12,262	40%
SG&A expenses	12,157	9,825	2,332	24%
Insurance recoveries	(17,200)	(784)	(16,416)	(2,094)%
Total	\$ 63,141	\$61,966	\$ 1,175	2%
Percent of revenue	96%	130%		

Total expenses increased 2% during the three months ended March 31, 2008 primarily as a result of the performance of TwinSpires, which was created by the acquisition of ATAB and BRIS and the launch of TwinSpires.com during 2007. In addition, we experienced increased operating expenses related to the operation of the temporary slot facility at Fair Grounds, which opened during 2007. These increases were partially offset by an increase in insurance recoveries related to damages sustained at Fair Grounds by Hurricane Katrina. Further discussion of expense variances by our reported segments is detailed below.

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Other Income (Expense) and Income Tax (Provision) Benefit

The following table is a summary of our other income (expense) and income tax (provision) benefit (in thousands):

	Three months ended March 31,		Change	
	2008	2007	\$	%
Interest income	\$ 177	\$ 272	\$ (95)	(35)%
Interest expense	(901)	(290)	(611)	(211)%
Equity in loss of unconsolidated investments	(830)	(299)	(531)	(178)%
Miscellaneous, net	372	663	(291)	(44)%
Other income (expense)	<u>\$(1,182)</u>	<u>\$ 346</u>	<u>\$(1,528)</u>	<u>(442)%</u>
Income tax (provision) benefit	(563)	\$5,348	\$(5,911)	(111)%
Effective tax rate	40%	39%		

Significant items affecting the comparability of other income (expense) and income tax (provision) benefit include:

- Interest expense increased primarily due to interest expense incurred on \$55.0 million borrowed to fund the acquisition of ATAB and BRIS during 2007.
- Equity in losses of unconsolidated investments increased during the three months ended March 31, 2008 primarily as a result of the performance of our investments in TrackNet and HRTV, which were formed during March 2007.

Net Revenues By Segment

The following table presents net revenues, including intercompany revenues, by our reported segments (in thousands):

	Three months ended March 31,		Change	
	2008	2007	\$	%
Churchill Downs	\$ 2,642	\$ 3,296	\$ (654)	(20)%
Arlington Park	13,223	13,190	33	—
Calder	2,938	1,205	1,733	144%
Louisiana Operations	33,747	29,709	4,038	14%
Total racing operations	52,550	47,400	5,150	11%
Other Investments	14,613	217	14,396	6,634%
Corporate revenues	154	510	(356)	(70)%
Eliminations	(1,596)	(285)	(1,311)	(460)%
	<u>\$65,721</u>	<u>\$47,842</u>	<u>\$17,879</u>	<u>37%</u>

Significant items affecting comparability of our revenues by segment include:

- Net revenues from other investments increased primarily as a result of the performance of TwinSpires, which was created by the acquisition of ATAB and BRIS and the launch of TwinSpires.com during 2007.
- Louisiana Operations revenues increased primarily as a result of increased revenues related to the temporary slot facility at Fair Grounds, which opened during September 2007. This increase was partially offset by three fewer live racing days at Fair Grounds compared to the same period of 2007.
- Calder revenues increased primarily due to the fact that simulcast operations were conducted during the three months ended March 31, 2008 under the Florida Supreme Court's decision to allow pari-mutuel facilities in Dade and Broward counties to enter into agreements regarding simulcast products with each other. Such simulcast operations had been ceased previously upon a stay issued by the Florida Supreme Court, which resulted in no simulcast operations during the three months ended March 31, 2007.

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- Churchill Downs revenues decreased primarily due to lower import pari-mutuel revenues, which we believe is attributable to decreased attendance caused by a smoking ban as well as inclement weather.

Expenses by Segment

The following table presents total expenses, including intercompany expenses, by our reported segments (in thousands):

	Three months ended March 31,		Change	
	2008	2007	\$	%
Churchill Downs	\$ 11,391	\$ 11,501	\$ (110)	(1)%
Arlington Park	17,007	15,909	1,098	7%
Calder	7,060	4,816	2,244	47%
Louisiana Operations	12,631	27,878	(15,247)	(55)%
Total racing operations	48,089	60,104	(12,015)	(20)%
Other Investments	13,978	1,153	12,825	1,112%
Corporate expenses	7,734	4,735	2,999	63%
Eliminations	(6,660)	(4,026)	(2,634)	(65)%
	<u>\$63,141</u>	<u>\$61,966</u>	<u>\$ 1,175</u>	<u>2%</u>

Significant items affecting comparability of our expenses by segment include:

- Louisiana Operations expenses decreased primarily as a result of the recognition of insurance recoveries related to damages sustained at Fair Grounds by Hurricane Katrina as well as three fewer live racing days in 2008. Partially offsetting these declines were expenses associated with the operation of the temporary slot facility at Fair Grounds, which opened during 2007.
- Other investments expenses increased primarily as a result of the performance of TwinSpires, which was created by the acquisition of ATAB and BRIS and the launch of TwinSpires.com during June 2007 and May 2007, respectively.
- Corporate expenses increased primarily as a result of increased marketing expenses related to the 2008 Kentucky Derby as well as increased costs associated with our initiative to attract and retain appropriate personnel to achieve our business objectives.
- Calder expenses increased primarily as a result of increased expenses associated with simulcast operations conducted during the three months ended March 31, 2008, a reduction in insurance recoveries related to damages sustained by Hurricane Wilma and higher insurance costs associated with workers' compensation insurance.

Consolidated Balance Sheet

The following table is a summary of our overall financial position as of March 31, 2008 and December 31, 2007 (in thousands):

	March 31, 2008	December 31, 2007	Change	
			\$	%
Total assets	\$ 626,042	\$ 624,816	\$ 1,226	—
Total liabilities	\$ 256,359	\$ 257,258	\$ (899)	—
Total shareholders' equity	\$ 369,683	\$ 367,558	\$ 2,125	1%

Significant items affecting comparability of our consolidated balance sheet include:

- Significant changes within total assets include increases in other current assets, goodwill and plant and equipment of \$7.0 million, \$7.0 million and \$6.5 million, respectively. Other current assets increased primarily due to increases in prepaid

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insurance balances associated with the renewal of our insurance premiums during the first quarter of 2008. Goodwill increased due to the accrual of earn-out payments related to the acquisition of ATAB and BRIS. Additions to plant and equipment during the three months ended March 31, 2008 primarily included spending related to the permanent slot facility and dormitory at Fair Grounds.

Partially offsetting these increases were decreases in accounts receivable and restricted cash of \$13.7 million and \$6.8 million, respectively. Accounts receivable balances decreased, and cash increased, primarily due to the collection of 2007 Churchill Downs and Calder simulcast receivables as well as the collection of accounts receivable related to the 2008 Kentucky Derby and Kentucky Oaks, which offset an increase in accounts receivable from the recognition of an insurance recovery receivable of \$5.7 million. Restricted cash decreased primarily due to the payout of purses during the racing meet at Fair Grounds.

- Significant changes within total liabilities include decreases in long-term debt, dividends payable and purses payable of \$18.0 million, \$6.8 million and \$3.9 million, respectively. Long-term debt decreased due to payments under our bank revolver arising from cash generated by operating activities, which primarily included collections of Derby-related and simulcast receivables. Purses payable decreased primarily due to the settlement of 2007 racing meet liabilities for Fair Grounds and Calder. In addition, the dividend declared during 2007 was paid during 2008.

Partially offsetting these decreases is an increase in deferred revenue of \$23.3 million which changed primarily due to invoicing for sponsorship events and the 2008 Kentucky Derby and Kentucky Oaks. Accrued expenses increased \$4.5 million primarily as a result of the accrual of earn-out payments related to the acquisition of ATAB and BRIS.

Liquidity and Capital Resources

The following table is a summary of our liquidity and capital resources (in thousands):

	Three months ended		Change	
	2008	2007	\$	%
Operating activities	\$ 44,509	\$ 19,732	\$ 24,777	126%
Investing activities	\$(10,068)	\$(20,341)	\$ 10,273	51%
Financing activities	\$(27,658)	\$ 164	\$(27,822)	(16,965)%

Significant items affecting comparability of our liquidity and capital resources include:

- The increase in cash provided by operating activities is primarily due to the recognition of insurance recoveries related to damages sustained at Fair Grounds by Hurricane Katrina. We anticipate that cash flows from operations over the next twelve months will be adequate to fund our business operations and capital expenditures.
- The decrease in cash used in investing activities is attributable primarily to a favorable comparison to 2007 related to the sale of the remaining ownership interest of Hoosier Park. Additions to plant and equipment during the three months ended March 31, 2008 primarily included spending related to the permanent slot facility and dormitory at Fair Grounds.
- We made repayments in excess of our borrowings on our revolving loan facilities of \$18.0 million during the three months ended March 31, 2008 due to the availability of cash generated by operating activities. Borrowings on our revolving loan facilities exceeded repayments by \$5.2 million during the three months ended March 31, 2007.

Recently Issued Accounting Pronouncements

SFAS No. 157, Fair Value Measurements ("SFAS No. 157") establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. Issued in February 2008, Financial Accounting Standards Board Staff Position ("FSP") No. 157-1, Application of FASB Statement No. 157 to

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FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13, removed leasing transactions accounted for under SFAS No. 13, Accounting for Leases and related guidance from the scope of SFAS No. 157. FSP No. 157-2, Partial Deferral of the Effective Date of Statement 157, deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008.

The Company adopted the SFAS No. 157 as of January 1, 2008 for financial assets and financial liabilities and there was no impact on the Company's consolidated financial condition and results of operations for the three months ended March 31, 2008. The Company is currently assessing the impact of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities on its consolidated financial position and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At March 31, 2008, we had \$50.0 million outstanding under our revolving credit facility, which bears interest at LIBOR-based variable rates. We are exposed to market risk on variable rate debt due to potential adverse changes in the LIBOR rate. Assuming the outstanding balance of the debt facilities remain constant, a one-percentage point increase in the LIBOR rate would reduce annual pre-tax earnings, recorded fair values and cash flows by \$0.5 million.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's Disclosure Committee and management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2008.

(b) Changes in Internal Control Over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the first quarter of 2008. There have not been any changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Jerry Jacobs

On June 15, 2005, Jerry Jacobs, a resident of New Orleans, Louisiana filed a petition with the Civil District Court for the Parish of New Orleans, Louisiana for declaratory judgment alleging that slot machines at Fair Grounds Race Course ("Fair Grounds") would violate the New Orleans City Charter that prohibits more than one land-based casino and that the Louisiana statute authorizing slot machines at racetracks violates the Louisiana constitution. The petition requests injunctive relief prohibiting the operation of slot machines at Fair Grounds. Churchill Downs Louisiana Horseracing Company, L.L.C., the owner of Fair Grounds, and the State of Louisiana are defendants in the action. The City of New Orleans intervened in support of the Company and the State of Louisiana. On October 30, 2006, the Civil District Court granted the Company's motion for summary judgment and dismissed Mr. Jacobs' petition in its entirety. On November 15, 2006, Mr. Jacobs appealed the Civil District Court's dismissal to the Court of Appeal for the Fourth Circuit of the State of Louisiana. The trial court decision was affirmed by the

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Court of Appeals in the Company's favor on February 27, 2008. Mr. Jacobs filed a writ application with the Louisiana Supreme Court on March 26, 2008 requesting reconsideration of the appellate court's decision. The Company filed its motion in opposition on April 8, 2008.

While the Company believes that the litigation by Mr. Jacobs is without merit and that the Company will ultimately prevail in this litigation, due to the inherent uncertainties in litigation, there is no assurance on the ultimate outcome of this proceeding. If Mr. Jacobs ultimately prevails in the litigation, the Company may not be authorized to operate slot machines at Fair Grounds. If the Company is not authorized to operate slot machines at Fair Grounds, there would be a material, adverse impact on the Company's results of operations.

THG

On April 24, 2008, the Company filed a lawsuit styled Churchill Downs Incorporated, Calder Race Course, Inc., Churchill Downs Technology Initiatives Company vs. Thoroughbred Horsemen's Group, LLC, et. al., Civil Action No. 3:08-CV-225-(H) (the "THG Lawsuit") in the United States District Court for the Western District of Kentucky against the THG and the Florida HBPA alleging that the THG, the Florida HBPA and various other state horsemen associations (collectively with the Florida HBPA, the "Horsemen's Groups") and certain individuals, violated Federal antitrust laws in connection with the interstate distribution of simulcast signals containing race content to off-track betting systems, including advance deposit wagering ("ADW") companies (collectively "OTB Systems").

The Company generates a significant amount of its revenues from sending signals of races from its racetracks to OTB Systems in other states ("export") and receiving signals from racetracks in other states ("import"). Revenues are earned from pari-mutuel wagering and fees on both import and export signals. Under the Interstate Horseracing Act of 1978 (the "IHA"), racetrack operators are permitted to contract with OTB Systems for the export of races and the right to accept wagers on such races by the OTB Systems, subject to compliance with the IHA. Compliance with the IHA requires, among other things, (i) approval of the state racing commissions in the state from which the signal is exported and the state in which the wagers are taken and (ii) a written agreement with the Horsemen's Group which represents the majority of the owners and trainers racing at the racetrack for those races proposed to be exported.

THG is an alliance of approximately seventeen Horsemen's Groups covering over 45 racetracks, including the Company's Churchill Downs and Calder racetracks. Certain Horsemen's Groups have appointed the THG as their agent for the purpose of negotiating agreements with the Company relating to revenue sharing on ADW pari-mutuel activity in an amount equal to one-third of the gross wagering takeout by the ADW business, a level that is significantly in excess of current sharing. Pending the resolution of this demand, certain of the Horsemen's Groups, including the Florida HBPA and Horsemen's Groups in Kentucky, Ohio, Maryland and Delaware, have indicated that they are withholding their consent under the IHA to import or export (as applicable) racing signals to or from Calder and the export of racing signals from Churchill Downs to certain OTB Systems, including Calder.

Currently, no purse sharing agreement is in place between Calder and the Florida HBPA, and the Florida HBPA has refused to negotiate toward the execution of such an agreement. As a result, beginning with the commencement of the Calder racing season on April 21, 2008 no export of racing signals has been made from Calder to OTB Systems outside Florida, except to an OTB System located in New York. In addition, negotiations have taken place with the two Horsemen's Groups in Kentucky concerning the export of racing signals from Churchill Downs to certain OTB Systems. While the Kentucky Horsemen's Groups have consented to the export of racing signals of the Kentucky Oaks, Kentucky Derby and Woodford Reserve Race Classic races and the export of the other races from Churchill Downs to certain OTB Systems, they thus far have not consented to the export of racing signals for other races from Churchill Downs to ADW businesses or Calder's OTB System. The racing season at Churchill Downs commenced on April 26, 2008.

The THG Lawsuit alleges, among other things, that the THG, various Horsemen's Groups and certain individual co-conspirators have violated Section 1 of the Sherman Act by contracting and conspiring to raise the amount of revenues they receive from ADW businesses and by engaging in a group boycott involving the withholding of consents to export and import racing signals by certain racetrack operators, including the Company. The THG Lawsuit requests an order dissolving the THG, an injunction preventing further violations of the Sherman Act and monetary damages. There can be no assurance, however, that the THG Lawsuit will be successful in terminating the activities by the THG and the Horsemen's Groups or that it will result in money damages sufficient to compensate the Company for losses it suffers.

ITEM 1A. RISK FACTORS

Information regarding risk factors appears in Part I – Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2007. Other than as described below, there have been no material changes from the risk factors previously disclosed in the Company’s Annual Report on Form 10-K.

We Depend On Agreements With Our Horsemen

As a result of the actions of the THG and the Horsemen’s Groups, the Company’s business, financial condition and results of operations may be materially and adversely impacted. The Company currently is not receiving revenues derived from (i) the export of racing signals from Calder to OTB Systems outside the State of Florida (other than an OTB System in New York) or (ii) the import of racing signals to Calder’s OTB System from the Beulah Park, River Downs, Delaware Park and Pimlico racetracks in Ohio, Delaware and Maryland. Further, unless the two Kentucky Horsemen’s Groups grant their consent, the Company will not receive revenues (other than with respect to the Kentucky Oaks, Kentucky Derby and Woodford Reserve Race Classic races) derived from the export of racing signals from Churchill Downs to the Company’s ADW business, TwinSpires, and to certain other OTB Systems, including the Company’s OTB System located at Calder. Additionally, the Company anticipates reduced revenues will be generated through TwinSpires as a result of the inability to accept wagers on races run at Churchill Downs and Calder racetracks and other racetracks where a Horsemen’s Group has withheld consent. During the pendency of the dispute with the Horsemen’s Groups, the Company may experience generalized decreases in live attendance at its racetracks and reduced traffic on TwinSpires due to the more limited racing content and wagering opportunities available to customers. Moreover, on April 22, 2008 the Company announced that it was reducing purses at Calder by 30%, effective April 27, 2008. Such reduction, together with similar purse reductions that may be required at Calder and/or Churchill Downs if the dispute continues, may negatively impact the Company’s ability to continue to attract high quality thoroughbreds to its racetracks. Although the Horsemen’s Group in Illinois has not joined the THG or threatened to withhold its consent or otherwise sought to re-negotiate contractual terms with the Company with respect to the Company’s racetrack at Arlington Park, there can be no assurance that it will not do so. At this time, the Company cannot predict the outcome of the THG Lawsuit or of the timing or manner in which the dispute with the Horsemen’s Groups may be resolved.

The IHA, as well as various state racing laws, require that we have written agreements with the horsemen at our racetracks in order to simulcast races, and, in some cases, conduct live racing. We also have written agreements with horse owners with regards to the proceeds of gaming machines in Louisiana. These agreements provide that we must receive the consent of the horsemen’s groups at the racetrack conducting live races before we may allow third parties to accept wagers on those races. In addition, the agreements between other racetracks and their horsemen’s groups typically provide that those racetracks must receive consent from the horsemen’s groups before we can accept wagers on their races. Further, Florida law requires Calder to have an agreement with the Florida HBPA governing the payment of purses of live thoroughbred races conducted at Calder and an agreement with the Florida Thoroughbred Breeders’ Association, Inc. governing the payment of breeders’, stallion, and special racing awards on live thoroughbred races conducted at Calder before Calder can receive a license to conduct slot machine gaming. We have been engaged in negotiations with the Florida HBPA and have been unable to reach an agreement for the sharing of slots revenue generated at Calder. There is no guarantee that we will be able to negotiate a satisfactory agreement.

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The failure to maintain agreements with our horsemen and industry associations on satisfactory terms or the refusal by a horsemen's group to consent to third parties accepting wagers on our races or our accepting wagers on third parties' races could have a material, adverse impact on our results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS

See exhibit index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHURCHILL DOWNS INCORPORATED

May 6, 2008

/s/ Robert L. Evans

Robert L. Evans
President and Chief Executive Officer
(Principal Executive Officer)

May 6, 2008

/s/ William E. Mudd

William E. Mudd
Executive Vice President and Chief Executive Officer (Principal Financial
and Accounting Officer)

EXHIBIT INDEX

<u>Number</u>	<u>Description</u>	<u>By Reference To</u>
3(a)	Articles of Amendment and Restated Articles of Incorporation of Churchill Downs Incorporated, dated as of March 19, 2008.	Exhibit 3.1 to Report on Form 8-K dated March 20, 2008
4(a)	Rights Agreement, dated as of March 19, 2008 by and between Churchill Downs Incorporated and National City Bank	Exhibit 4.1 to Report on Form 8-K dated March 17, 2008
10(a)	Settlement Agreement and Release dated as of March 10, 2008 by and among Churchill Downs Incorporated, American Alternative Insurance Corporation, Commonwealth Insurance Company and Westchester Surplus Lines Insurance Company	Exhibit (10vv) to Report on Form 10-K for the year ended December 31, 2007
10(b)	Terms and Conditions of Performance Share Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan for Employees of TwinSpires	Report on Form 10-Q for the fiscal quarter ended March 31, 2008
10(c)	Terms and Conditions of Performance Share Awards Issued Pursuant to the Churchill Downs Incorporated 2007 Omnibus Stock Incentive Plan	Report on Form 10-Q for the fiscal quarter ended March 31, 2008
31(i)(a)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Report on Form 10-Q for the fiscal quarter ended March 31, 2008
31(i)(b)	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Report on Form 10-Q for the fiscal quarter ended March 31, 2008
32	Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Rule 13a – 14(b))	Report on Form 10-Q for the fiscal quarter ended March 31, 2008

**TERMS AND CONDITIONS OF
PERFORMANCE SHARE AWARDS ISSUED PURSUANT TO
THE CHURCHILL DOWNS INCORPORATED
2007 OMNIBUS STOCK INCENTIVE PLAN
FOR EMPLOYEES OF TWINSPIRES**

1. ESTABLISHMENT OF THE TERMS AND CONDITIONS OF PERFORMANCE SHARE AWARDS ISSUED PURSUANT TO THE CHURCHILL DOWNS INCORPORATED 2007 OMNIBUS STOCK INCENTIVE PLAN FOR EMPLOYEES OF TWINSPIRES.

(a) The Compensation Committee of the Board of Directors of Churchill Downs Incorporated (the "Company") hereby establishes the following Twinspires Performance Share Awards Terms and Conditions for employees of Twinspires (the "Twinspires Performance Share Awards Terms and Conditions") applicable to Performance Share Awards granted pursuant to the Company's 2007 Omnibus Stock Incentive Plan (the "Plan"). Any capitalized terms not defined herein shall have the meaning set forth in the Plan. In the event of a conflict between the provisions of the Plan and the Twinspires Performance Share Awards Terms and Conditions, the provisions of the Plan shall prevail.

(b) For purposes of Performance Share Awards granted pursuant to the Plan, the terms listed below shall have the following meanings:

(1) **Award Value** shall mean the maximum dollar award value a Participant may earn for any Performance Period.

(2) **Cause** shall have the meaning set forth in an employment agreement or other agreement, including, but not limited to a severance agreement, between Participant and the Company or a Subsidiary that contains a definition of "Cause." If no such agreement exists, "Cause" shall mean the occurrence of any one of the following acts by Participant:

(i) Participant shall have been convicted of, or shall have pleaded guilty or *nolo contendere* to, any felony or any crime involving dishonesty or moral turpitude;

(ii) Participant shall have breached his or her Performance Share Award Agreement or any employment, non-competition or non-solicitation covenant or agreement with the Company or a Subsidiary, whether in an employment agreement or otherwise;

(iii) Participant shall have failed (x) to substantially comply with the rules or policies of general application of the Company or a Subsidiary, or (y) to devote substantial time and energy to the business and affairs of the Company or a Subsidiary (other than due to death or Disability);

(iv) Participant shall have engaged in any fraud, embezzlement, theft or other dishonesty against the Company or a Subsidiary;

(v) Participant's continued failure to substantially perform Participant's duties;

(vi) Participant's repeated acts of insubordination, or failure to execute Company or Subsidiary plans and/or strategies; or

(vii) Participant engages in any act that is intended or may reasonably be expected to harm the reputation, business, prospects or operations of the Company or a Subsidiary;

(3) **Change in Control** shall mean the first to occur of the following events:

(i) the acquisition, directly or indirectly, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of either the then-outstanding voting securities of the Company (the "Outstanding Company Common Stock") or the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control: (w) any acquisition directly from the Company, (x) any acquisition by the Company or any of its subsidiaries, (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (z) any acquisition by any corporation pursuant to a transaction which complies with clauses (x), (y) and (z) of subsection (iii) of this definition;

(ii) individuals who, as of the Effective Date, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(iii) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another entity (a "Corporate Transaction"), in each case, unless, immediately following such Corporate Transaction, (x) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of Common Stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the Company resulting from such Corporate Transaction (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (y) no Person (excluding any corporation resulting from such Corporate Transaction or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) beneficially owns, directly or indirectly, 50% or more of, respectively, the then Outstanding Company Common Stock resulting from such Corporate Transaction or the Outstanding Company Voting Securities resulting from such Corporate Transaction, except to the extent that such ownership existed prior to the Corporate Transaction, and (z) at least a majority of the members of the Board of the Company resulting from the Corporate Transaction were members of the Incumbent Board at the time of the execution of the initial plan or action of the Board providing for such Corporate Transaction;

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company; or

(v) the disposition by the Company of all or substantially all of the assets of the Twinspires.com business unit.

(4) **Disability** shall mean the inability of Participant to perform his normal duties as a result of any physical or mental injury or ailment for (i) any consecutive ninety (90)-day period, or (ii) any one hundred eighty (180) days (whether or not consecutive) during any three hundred sixty-five (365) calendar day period.

(5) **EBITDA** shall mean the Twinspires.com business (which includes the BRIS Data business) net income from continuing operations plus interest expense plus taxes plus depreciation and amortization (after giving effect to accruals for the cost of the Performance Share Awards).

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- (6) **Effective Date** shall mean the date the Committee approves the Twinpires Performance Share Awards Terms and Conditions.
- (7) **Open Performance Period** shall mean a Performance Period that has not been closed and for which the Twinpires Performance Goals have not been achieved.
- (8) **Participant** shall mean an eligible Employee that has been granted an Award Value pursuant to the Twinpires Performance Share Awards Terms and Conditions.
- (9) **Performance Period** shall mean each of the 2008-2011 calendar years, inclusive.
- (10) **Performance Share Award** shall mean a grant of Performance Shares following Committee certification of the Company's Performance Goals pursuant to the Twinpires Performance Share Awards Terms and Conditions.
- (11) **Performance Share Award Agreement** shall mean a written agreement between the Company and a Participant with respect to any earned Performance Shares.
- (12) **Retirement** shall (i) have the meaning assigned to it in Company's tax qualified retirement plan, or (ii) mean the attainment of such other retirement age as the Committee may designate from time to time.
- (13) **Termination Date** shall mean the date set forth in Section 12(a).
- (14) **Twinpires Performance Goals** shall have the meaning set forth in Section 5(a).

2. ADMINISTRATION OF THE TWINSPIRES PERFORMANCE SHARE AWARDS TERMS AND CONDITIONS.

The Twinspires Performance Share Awards Terms and Conditions shall be administered by the Committee. The Committee shall have the sole authority, in its absolute discretion, to adopt, amend and rescind any and all rules and regulations as, in its opinion, may be advisable in the administration, construction and interpretation of the Twinspires Performance Share Awards Terms and Conditions, its rules and regulations, and the instruments evidencing awards granted under these terms and conditions, and to make all other determinations deemed necessary or advisable for the administration of these terms and conditions. All decisions, determinations and interpretations of the Committee shall be binding on all Participants.

3. ELIGIBILITY.

The Committee shall determine the Employees that will be eligible for grant of Performance Share Awards under the Twinspires Performance Share Awards Terms and Conditions, as well as his or her Award Value for each of the Performance Periods.

4. AVAILABILITY OF PERFORMANCE SHARE AWARDS.

Pursuant to the terms of the Plan, up to 300,000 Performance Share Awards may be granted under the Twinspires Performance Share Awards Terms and Conditions to any Participant in any calendar year. Performance Shares that are forfeited shall again be available for grant under the Plan and the Twinspires Performance Share Awards Terms and Conditions.

5. PERFORMANCE MEASURES.

One hundred percent (100%) of each Performance Share Award shall be based upon Twinspires' achievement of minimum EBITDA performance goal for a particular Performance Period. The minimum EBITDA goal for each Performance Period is as follows (each, the "Twinspires Performance Goals"):

- 2008 – 13.5 million
- 2009 – 21.5 million
- 2010 – 30.0 million
- 2011 – 40.0 million

The determination of whether such Twinspires Performance Goals have been achieved shall be made by the Company's outside auditors.

6. GRANT OF PERFORMANCE SHARE AWARDS.

- (a) The Committee shall certify the results of the Twinspires Performance Goals in the first quarter of each calendar year for the years 2009 through 2012,

inclusive, following the Company's completion of its year end financial reports, as audited. Except as otherwise provided in the Twinspires Performance Share Awards Terms and Conditions, following such certification, each Participant shall be granted a Performance Share Award in respect of applicable Performance Periods; provided that no Performance Share Award may be granted in respect of a future Performance Period.

(b) The value of the Performance Share Award shall be based upon Participant's applicable Award Value and the Committee's certification of the Twinspires Performance Goals. Except as otherwise provided, the number of shares subject to the Performance Share Award shall be determined based on dollar value of the Performance Share Award for the particular year divided by the closing price of the Company's common stock on the last business day of the calendar year immediately preceding the date of grant. Except as otherwise set forth herein, the Performance Share Award shall vest and be payable in accordance with Section 7 below.

(c) Once a Performance Share Award has been granted for a particular Performance Period, such Performance Period shall be closed. In the event Twinspires does not achieve the Twinspires Performance Goals for the scheduled Performance Period, such Performance Period shall be closed. No future Performance Share Award may be granted in respect of any closed Performance Period. Only one Performance Share Award grant may be awarded in respect of any Performance Period.

7. VESTING AND PAYMENT OF PERFORMANCE SHARE AWARDS.

(a) Subject to Participant's continued employment with the Company or a Subsidiary, Performance Share Awards shall vest over a period of twelve (12) months in equal quarterly installments on the last day of each quarter, at which time such awards shall be payable as soon as administratively practicable. The first vesting date shall begin on March 31 of the year of grant.

(b) At or before each vesting date, the Committee shall determine, in its sole discretion, whether the Performance Share Award shall be settled in cash, Shares or a combination of both.

8. DIVIDEND EQUIVALENTS.

Participants shall be entitled to accrue dividend equivalents with respect to the Performance Shares that are subject to the unvested portion of any Performance Share Award, which dividend equivalents shall be payable as soon as administratively practicable following the vesting of the Performance Share Award related to such dividend equivalent amounts, but in no event later than March 15th of the year following the year of vesting.

9. EXTRAORDINARY EVENTS.

If the Committee determines that one or more extraordinary events has occurred during a Performance Period that alter the basis upon which the performance measures set forth in Section 5 are to be calculated, the Committee may adjust these performance measures as may be necessary to exclude the effect of these events. Events warranting such action may include, but are not limited to, major acquisitions or divestitures, significant changes in accounting practices, significant capital expenditures or a recapitalization of the Company. Notwithstanding the foregoing, the Committee shall not have the discretion to increase the Award Value payable that would otherwise be due upon certification of the Twinspires Performance Goals.

10. TERMINATION OF EMPLOYMENT.

(a) Except as set forth in Sections 10(b) below, termination of a Participant's employment with the Company or a Subsidiary prior to full vesting of the Performance Share Award for any reason (whether voluntary or involuntary) shall result in forfeiture (i) of any then unvested Performance Share Awards and any accrued but unpaid dividend equivalents thereon and (ii) of all opportunity to receive a Performance Share Award for any Open Performance Period.

(b) Termination of a Participant's employment by reason of Participant's death, Disability, or Retirement or by the Company or a Subsidiary without Cause shall result in (i) full acceleration of vesting of any then unvested Performance Share Awards and, subject to Section 13(a), payout as soon as administratively practicable in a lump sum of such accelerated Performance Shares and accrued dividend equivalents thereon to the Participant (or the Participant's beneficiary or estate in the event of death) and (ii) forfeiture of all opportunity to receive a Performance Share Award for any Open Performance Period.

11. CHANGE IN CONTROL.

(a) In the event of a Change in Control, the following shall apply:

(1) Full acceleration of vesting and, subject to Sections 13(a) and (b), payout as soon as administratively practicable in a lump sum of such accelerated Performance Shares and accrued dividend equivalents thereon to the Participant;

(2) Automatic grant of a Performance Share Award equal to fifty percent (50%) of any of Participant's unearned Award Values (without regard to the Twinspires Performance Goal) for any Open Performance Periods. Such Performance Share Award shall be fully vested and, subject to Sections 10(b) and 13(a), shall be payable in accordance with the original payout schedule attributable to the underlying Open Performance Periods. The number of Shares subject to such Performance Share Award shall be determined based on the closing price of the Company's Common Stock on the last business day immediately prior to the Change in Control; and

(3) Immediate termination and forfeiture of the remaining (50%) of any of Participant's unearned Award Values for any Open Performance Period.

(4) Example:

(i) Facts: Participant was granted an Award Value of \$100,000 for 2008, \$125,000 for 2009, \$150,000 for 2010, and \$200,000 for 2011. Twinspires achieved the 2008 Twinspires Performance Goals, but did not achieve the 2009 Twinspires Performance Goals. In 2010, the Company was acquired in a transaction that constituted a Change in Control. The closing price of the Company's Common Stock on the day prior to the termination of the Twinspires Performance Share Awards Terms and Conditions was \$100.00 per share.

(ii) Awards: There would be no effect on the Performance Share Award granted in respect of the 2008 Performance Period, which would have vested in full. Participant would not be entitled to a grant of a Performance Share Award in respect of the 2009 Performance Period as the Twinspires Performance Goals were not met in such year. In connection with the Change in Control, each Participant would be granted two separate Performance Share Awards.

- The Performance Share Award in respect of the 2010 Performance Period would have a dollar value of \$75,000 (50% x \$150,000) and would cover 750 shares ($\$75,000 \div 100.00$ per share), if applicable. This Performance Share Award would be fully vested at the time of grant but would be payable in quarterly installments over a period of twelve months beginning March 31, 2011, regardless of Participant's continued employment with the Company or a Subsidiary.
- The Performance Share Award in respect of the 2011 Performance Period would have a dollar value of \$100,000 (50% x \$200,000) and would cover 1,000 shares ($\$100,000 \div 100.00$ per share), if applicable. This Performance Share Award would be fully vested at the time of grant but would be payable in quarterly installments over a period of twelve months beginning March 31, 2012, regardless of Participant's continued employment with the Company or a Subsidiary.

(iii) If Participant were terminated pursuant to any of the conditions set forth in Section 10(b), subject to Section 13(a), Participant would be entitled to a payout as soon as administratively practicable in a lump sum of any unpaid amounts.

12. EXPIRATION OF THE TWINSPIRES PERFORMANCE SHARE AWARDS TERMS AND CONDITIONS; TERMINATION OF THE TWINSPIRES PERFORMANCE SHARE AWARDS TERMS AND CONDITIONS.

(a) The Twinspires Performance Share Awards Terms and Conditions shall automatically terminate on the date the Committee determines the grants of Performance Share Awards, if any, in respect of 2011 Performance Period (the

“Termination Date”). Any Open Performance Periods as of such date shall be immediately terminated and Participant shall not be entitled to any Performance Share Award for any remaining Open Performance Period.

(b) Subject to Section 409A and except as set forth in Section 11(b), in the event the Twinspires Performance Share Awards Terms and Conditions are terminated prior to the Termination Date, the following shall apply:

(1) Subject to Section 10(b), any unvested Performance Share Awards and accrued dividend equivalents thereon shall continue to vest in accordance with its existing vesting schedule; and

(2) Participant shall be automatically granted a Performance Share Award, effective immediately prior to the termination of the Twinspires Performance Share Awards Terms and Conditions, equal to fifty percent (50%) of any of Participant’s unearned Award Values (without regard to the Twinspires Performance Goals) for any Open Performance Period. The number of shares subject to such Performance Share Award shall be determined based on the closing price of the Company’s Common Stock on the last business day immediately prior to the termination of the Twinspires Performance Share Awards Terms and Conditions. Subject to Section 10(b), such Performance Share Award shall vest in accordance with the vesting schedule attributable to the underlying Open Performance Period of each such Performance Share Award, with the first vesting date beginning on the last day of the calendar quarter in which such Performance Share Award was granted.

(3) The remaining (50%) of any of Participant’s unearned Award Values shall terminate in full and Participant shall not be entitled to any Performance Share Award in respect of such unearned Award Values.

(4) Example:

(i) Facts: Participant was granted an Award Value of \$100,000 for 2008, \$125,000 for 2009, \$150,000 for 2010, and \$200,000 for 2011. Twinspires achieved the 2008 Twinspires Performance Goals, but did not achieve the 2009 Twinspires Performance Goals. In 2010, the Company terminated the Twinspires Performance Share Awards Terms and Conditions. The closing price of the Company’s Common Stock on the day prior to the termination of the Twinspires Performance Share Awards Terms and Conditions was \$100.00 per share.

(ii) Awards: There would be no effect on the Performance Share Award granted in respect of the 2008 Performance Period, which would have vested in full. Participant would not be entitled to a grant of a Performance Share Award in respect of the 2009 Performance Period as the Twinspires Performance Goals were not met in such year. Participant would be granted two separate Performance Share Awards.

- The Performance Share Award in respect of the 2010 Performance Period would have a dollar value of \$75,000 (50% x \$150,000) and would cover 750 shares ($\$75,000 \div 100.00$ per share), if applicable. Subject to Section 10(b), this Performance Share Award would vest in quarterly installments over a period of twelve months.

- The Performance Share Award in respect of the 2011 Performance Period would have a dollar value of \$100,000 (50% x \$200,000) and would cover 1,000 shares ($\$100,000 \div 100.00$ per share), if applicable. Subject to Section 10(b), this Performance Share Award would vest in quarterly installments over a period of twelve months.

13. SECTION 409A.

(a) If any amount to be paid to a Participant pursuant to the Twinspires Performance Share Awards Terms and Conditions is subject to Section 409A of the Code and the rules and regulations issued thereunder (“Section 409A”), and if the Participant is a “specified employee” (as defined under Section 409A) as of the termination date, then with regard to any payment or the provision of any benefit that is specified as subject to this paragraph, such payment or benefit shall not be made or provided prior to the earlier of (i) the expiration of the six (6)-month period measured from the date of the Participant’s “separation from service” (as such term is defined under Section 409A), and (ii) the date of the Participant’s death (the “Delay Period”). Upon the expiration of the Delay Period, all payments and benefits delayed pursuant to this paragraph (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Participant in a lump sum, and any remaining payments and benefits due under the Twinspires Performance Share Awards Terms and Conditions shall be paid or provided in accordance with the normal payment dates specified for them herein.

(b) In the event of the occurrence of a Change in Control that does not also constitute a 409A Change in Control (as defined below), any payment or benefit that would become payable or distributable on an accelerated basis in connection with such Change in Control shall not be so accelerated and shall be paid out in accordance with its originally scheduled payout date.

For purposes of the foregoing, a “409A Change in Control” shall be deemed to occur if any of the following conditions are determined to have been met, provided such determination is in accordance with Treasury Regulation §1.409A-3(i)(5):

(i) Any one person, or more than one person acting as a group (as determined under Treasury Regulation §1.409A-3(i)(5)(v)(B)), acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company.

(ii) Any one person, or more than one person acting as a group (as determined under Treasury Regulation §1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 30 percent or more of the total voting power of the stock of the Company.

(iii) A majority of members of the Company's Board of Directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company's Board of Directors before the date of the appointment or election.

(iv) Any one person, or more than one person acting as a group (as determined under Treasury Regulation §1.409A-3(i)(5)(v)(B)), acquires (or has acquired during the 12- month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the Company immediately before such acquisition or acquisitions.

(c) It is intended that the Twinspires Performance Share Awards Terms and Conditions shall comply with the provisions of Section 409A so as not to subject any Participant to the payment of additional taxes and interest under Section 409A. In furtherance of this intent, this Twinspires Performance Share Awards Terms and Conditions shall be interpreted, operated, and administered in a manner consistent with these intentions, and to the extent that any regulations or other guidance issued under Section 409A would result in any Participant being subject to payment of additional income taxes or interest under Section 409A, the Company agrees to amend the Twinspires Performance Share Awards Terms and Conditions or any Performance Share Award Agreement as may be necessary in order to avoid the application of such taxes or interest under Section 409A.

14. UNFUNDED STATUS OF THE PERFORMANCE SHARE AWARDS TERMS AND CONDITIONS.

The Twinspires Performance Share Awards Terms and Conditions is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

**TERMS AND CONDITIONS OF
PERFORMANCE SHARE AWARDS ISSUED PURSUANT TO
THE CHURCHILL DOWNS INCORPORATED
2007 OMNIBUS STOCK INCENTIVE PLAN**

1. ESTABLISHMENT OF THE TERMS AND CONDITIONS OF PERFORMANCE SHARE AWARDS ISSUED PURSUANT TO THE CHURCHILL DOWNS INCORPORATED 2007 OMNIBUS STOCK INCENTIVE PLAN.

(a) The Compensation Committee of the Board of Directors of Churchill Downs Incorporated (the "Company") hereby establishes the following Performance Share Awards Terms and Conditions (the "Performance Share Awards Terms and Conditions") applicable to Performance Share Awards granted pursuant to the Company's 2007 Omnibus Stock Incentive Plan (the "Plan"). Any capitalized terms not defined herein shall have the meaning set forth in the Plan. In the event of a conflict between the provisions of the Plan and the Performance Share Awards Terms and Conditions, the provisions of the Plan shall prevail.

(b) For purposes of Performance Share Awards granted pursuant to the Plan, the terms listed below shall have the following meanings:

(1) **Award Value** shall mean the maximum dollar award value a Participant may earn for any Performance Period.

(2) **Cause** shall have the meaning set forth in an employment agreement or other agreement, including, but not limited to a severance agreement, between Participant and the Company or a Subsidiary that contains a definition of "Cause." If no such agreement exists, "Cause" shall mean the occurrence of any one of the following acts by Participant:

(i) Participant shall have been convicted of, or shall have pleaded guilty or *nolo contendere* to, any felony or any crime involving dishonesty or moral turpitude;

(ii) Participant shall have breached his or her Performance Share Award Agreement or any employment, non-competition or non-solicitation covenant or agreement with the Company or a Subsidiary, whether in an employment agreement or otherwise;

(iii) Participant shall have failed (x) to substantially comply with the rules or policies of general application of the Company or a Subsidiary, or (y) to devote substantial time and energy to the business and affairs of the Company or a Subsidiary (other than due to death or Disability);

- (iv) Participant shall have engaged in any fraud, embezzlement, theft or other dishonesty against the Company or a Subsidiary;
- (v) Participant's continued failure to substantially perform Participant's duties;
- (vi) Participant's repeated acts of insubordination, or failure to execute Company or Subsidiary plans and/or strategies; or
- (vii) Participant engages in any act that is intended or may reasonably be expected to harm the reputation, business, prospects or operations of the Company or a Subsidiary;

(3) **Change in Control** shall mean the first to occur of the following events:

(i) the acquisition, directly or indirectly, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of either the then-outstanding voting securities of the Company (the "Outstanding Company Common Stock") or the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control: (w) any acquisition directly from the Company, (x) any acquisition by the Company or any of its subsidiaries, (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (z) any acquisition by any corporation pursuant to a transaction which complies with clauses (x), (y) and (z) of subsection (iii) of this definition;

(ii) individuals who, as of the Effective Date, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(iii) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another entity (a "Corporate Transaction"), in each case, unless, immediately following such Corporate Transaction, (x) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Corporate Transaction beneficially own, directly or indirectly, more than 50% of, respectively, the then-outstanding shares of Common Stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the Company resulting from such Corporate Transaction (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (y) no Person (excluding any corporation resulting from such Corporate Transaction or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Corporate Transaction) beneficially owns, directly or indirectly, 50% or more of, respectively, the then Outstanding Company Common Stock resulting from such Corporate Transaction or the Outstanding Company Voting Securities resulting from such Corporate Transaction, except to the extent that such ownership existed prior to the Corporate Transaction, and (z) at least a majority of the members of the Board of the Company resulting from the Corporate Transaction were members of the Incumbent Board at the time of the execution of the initial plan or action of the Board providing for such Corporate Transaction; or

(iv) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(4) **Company Performance Goal** shall have the meaning set forth in Section 5(a).

(5) **Disability** shall mean the inability of Participant to perform his normal duties as a result of any physical or mental injury or ailment for (i) any consecutive ninety (90)-day period, or (ii) any one hundred eighty (180) days (whether or not consecutive) during any three hundred sixty-five (365) calendar day period.

(6) **EBITDA** shall mean the Company's net income from continuing operations plus interest expense plus taxes plus depreciation and amortization (after giving effect to accruals for the cost of the Performance Share Awards).

- (7) **Effective Date** shall mean the date the Committee approves the Performance Share Awards Terms and Conditions.
- (8) **Good Reason** shall mean the occurrence (without Participant's express consent) of any one of the following acts by the Company or a Subsidiary:
- (i) the assignment to Participant of any duties inconsistent in any material respect with the position of Participant as of the effective date of any Change in Control, or any other diminution in any material respect in such position, authority, duties or responsibilities unless agreed to by Participant;
 - (ii) the Company's requiring Participant to be based at, or perform his principal functions at, any office or location other than the location within thirty-five (35) miles of the location at which Participant was based as of the effective date of the Change in Control unless such other location is closer to Participant's then-primary residence; or
 - (iii) a reduction in Participant's base salary unless other similarly situated employees suffer a comparable reduction;
 - (iv) a reduction in Participant's welfare benefits plans, qualified retirement plan, or paid time off benefit unless other similarly situated employees suffer a comparable reduction; and
 - (v) the Company's or a Subsidiary's notice to Participant of non-renewal of his employment agreement, if applicable.
- (9) **Open Performance Period** shall mean a Performance Period for which the Company Performance Goal has not been achieved.
- (10) **Participant** shall mean an eligible Employee that has been granted an Award Value pursuant to the Performance Share Awards Terms and Conditions.
- (11) **Performance Period** shall mean each of the 2008-2012 calendar years, inclusive.
- (12) **Performance Share Award** shall mean a grant of Performance Shares following Committee certification of the Company's Performance Goal and individual performance goals pursuant to the Performance Share Awards Terms and Conditions.

(13) **Performance Share Award Agreement** shall mean a written agreement between the Company and a Participant with respect to any earned Performance Shares.

(14) **Retirement** shall (i) have the meaning assigned to it in Company's tax qualified retirement plan, or (ii) mean the attainment of such other retirement age as the Committee may designate from time to time.

(15) **Termination Date** shall mean the date set forth in Section 12(a).

2. ADMINISTRATION OF THE PERFORMANCE SHARE AWARDS TERMS AND CONDITIONS.

The Performance Share Awards Terms and Conditions shall be administered by the Committee. The Committee shall have the sole authority, in its absolute discretion, to adopt, amend and rescind any and all rules and regulations as, in its opinion, may be advisable in the administration, construction and interpretation of the Performance Share Awards Terms and Conditions, its rules and regulations, and the instruments evidencing awards granted under these terms and conditions, and to make all other determinations deemed necessary or advisable for the administration of these terms and conditions. All decisions, determinations and interpretations of the Committee shall be binding on all Participants.

3. ELIGIBILITY.

The Committee shall determine the Employees that will be eligible for grant of Performance Share Awards under the Performance Share Awards Terms and Conditions, as well as his or her Award Value for each of the Performance Periods.

4. AVAILABILITY OF PERFORMANCE SHARE AWARDS.

Pursuant to the terms of the Plan, up to 300,000 Performance Share Awards may be granted under the Performance Share Awards Terms and Conditions to any Participant in any calendar year. Performance Shares that are forfeited shall again be available for grant under the Plan and the Performance Share Awards Terms and Conditions.

5. PERFORMANCE MEASURES.

(a) Thirty percent (30%) of each Performance Share Award shall be based upon the Company's achievement of minimum EBITDA performance goal for a particular Performance Period. The minimum EBITDA goal for each Performance Period is as follows (each, a "Company Performance Goal"):

- 2008 – \$70 million,

- 2009 – \$85 million,
- 2010 – \$100 million,
- 2011 – \$115 million,
- 2012 – \$130 million.

The determination of whether such Company Performance Goal has been achieved shall be made by the Company's outside auditors.

(b) Seventy percent (70%) of each Performance Share Award shall be based upon the Participant's achievement of his or her individual performance objectives, which shall be recommended each year by the Company's CEO and approved by the Committee. The determination of whether such individual performance goals have been achieved shall be made by the Committee upon advice of the Company's CEO.

6. GRANT OF PERFORMANCE SHARE AWARDS.

(a) The Committee shall certify the Company's EBITDA results and the results of each Participant's individual performance goals in the first quarter of each calendar year for the years 2009 through 2013, inclusive, following the Company's completion of its year end financial reports, as audited. Except as otherwise provided in the Performance Share Awards Terms and Conditions, following such certification, each Participant shall be granted a Performance Share Award in respect of applicable Performance Periods; provided that no Performance Share Award for a particular Performance Period shall be granted unless and until the Company's Performance Goal for such Performance Period has been achieved; and provided further, that no Performance Share Award may be granted in respect of a future Performance Period.

(b) The value of the Performance Share Award shall be based upon Participant's applicable Award Value and the Committee's certification of the Company's Performance Goal and Participant's individual performance objectives. Except as otherwise provided, the number of shares subject to the Performance Share Award shall be determined based on dollar value of the Performance Share Award for the particular year divided by the closing price of the Company's common stock on the last business day of the calendar year immediately preceding the date of grant. Except as otherwise set forth herein, the Performance Share Award shall vest and be payable in accordance with Section 7 below.

(c) In the event the Company does not achieve its Company Performance Goal in the scheduled year, the Participant's Award Value attributable to such Company Performance Goal may be achieved in a future year, in which case, the Performance Share Award shall be granted in the first quarter following the year such Company Performance Goal is achieved.

(i) The individual performance portion of Participant's Performance Share Award for the scheduled year shall be based on the Company's CEO and

Committee's assessment of the Participant's attainment of performance objectives for the year in which the Company Performance Goal is met (and not attainment of individual performance objectives for the originally scheduled year).

(ii) The number of shares subject to such Performance Share Award shall be determined based on dollar value of the Performance Share Award for the particular year divided by the closing price of the Company's Common Stock on the last business day of the calendar year immediately preceding the date of grant. Such Performance Share Award shall vest and be payable in accordance with the vesting schedule attributable to the underlying Performance Period as set forth in Section 7 below.

(iii) Example:

(x) Facts: Participant was granted an Award Value of \$100,000 for 2008, \$125,000 for 2009 and \$150,000 for 2010. The Company did not achieve either of the 2008 or 2009 Company Performance Goal, but achieved the 2010 Company Performance Goal. For the 2010 Performance Period, the Committee determined that Participant met 50% of his individual performance objectives. The closing price of the Company's Common Stock on December 31, 2009 was \$100.00 per share.

(y) Awards: In the first quarter of 2011, Participant would be granted three separate Performance Share Awards.

- The Performance Share Award in respect of the 2008 Performance Period would have a dollar value of \$65,000 (30% x \$100,000) + (70% x \$100,000 ÷ 50%) and would cover 650 shares (\$65,000 ÷ 100.00 per share), if applicable. This Performance Share Award would vest in quarterly installments over a period of thirty-six months, beginning on March 31 of the year of grant.
- The Performance Share Award in respect of the 2009 Performance Period would have a dollar value of \$81,250 (30% x \$125,000) + (70% x \$125,000 ÷ 50%) and would cover 812 shares (\$81,250 ÷ 100.00 per share), if applicable, plus a cash payment in respect of the remaining half share. This Performance Share Award would vest in quarterly installments over a period of thirty-six months, beginning on March 31 of the year of grant.
- The Performance Share Award in respect of the 2010 Performance Period would have a dollar value of \$97,500 (30% x \$150,000) + (70% x \$150,000 ÷ 50%) and would cover 975 shares (\$97,500 ÷ 100.00 per share), if applicable. This Performance Share Award would vest in quarterly installments over a period of twenty-four months, beginning on March 31 of the year of grant.

(d) Once a Performance Share Award has been granted for a particular Performance Period, such Performance Period shall be closed. Only one Performance Share Award grant may be awarded in respect of any Performance Period.

7. VESTING AND PAYMENT OF PERFORMANCE SHARE AWARDS.

(a) Subject to Participant's continued employment with the Company or a Subsidiary, Performance Share Awards granted in respect of the 2008 and 2009 Performance Periods shall vest over a period of thirty-six (36) months in equal quarterly installments on the last day of each quarter, at which time such awards shall be payable as soon as administratively practicable. The first vesting date shall begin on March 31 of the year of grant.

(b) Subject to Participant's continued employment with the Company or a Subsidiary, Performance Share Awards granted in respect of the 2010 and 2011 Performance Periods shall vest over a period of twenty-four (24) months in equal quarterly installments on the last day of each quarter, at which time such awards shall be payable as soon as administratively practicable. The first vesting date shall begin on March 31 of the year of grant.

(c) Subject to Participant's continued employment with the Company or a Subsidiary, Performance Share Awards granted in respect of the 2012 Performance Period shall vest over a period of twelve (12) months in equal quarterly installments the last day of each quarter, at which time such awards shall be payable as soon as administratively practicable. The first vesting date shall begin on March 31 of the year of grant.

(d) At or before each vesting date, the Committee shall determine, in its sole discretion, whether the Performance Share Award shall be settled in cash, Shares or a combination of both.

8. DIVIDEND EQUIVALENTS.

Participants shall be entitled to accrue dividend equivalents with respect to the Performance Shares that are subject to the unvested portion of any Performance Share Award, which dividend equivalents shall be payable as soon as administratively practicable following the vesting of the Performance Share Award related to such dividend equivalent amounts, but in no event later than March 15th of the year following the year of vesting.

9. EXTRAORDINARY EVENTS.

If the Committee determines that one or more extraordinary events has occurred during a Performance Period that alter the basis upon which the performance measures set forth in Section 5 are to be calculated, the Committee may adjust these performance measures as may be necessary to exclude the effect of these events. Events warranting such action may include, but are not limited to, major acquisitions or divestitures,

significant changes in accounting practices, or a recapitalization of the Company. Notwithstanding the foregoing, the Committee shall not have the discretion to increase the Award Value payable that would otherwise be due upon certification of the Company's Performance Goal and individual performance goals.

10. TERMINATION OF EMPLOYMENT.

(a) Except as set forth in Sections 10(b) and 11(a) below, termination of a Participant's employment with the Company or a Subsidiary prior to full vesting of the Performance Share Award for any reason (whether voluntary or involuntary) shall result in forfeiture (i) of any then unvested Performance Share Awards and any accrued but unpaid dividend equivalents thereon and (ii) of all opportunity to receive a Performance Share Award for any Open Performance Period.

(b) Termination of a Participant's employment by reason of Participant's death, Disability, or Retirement shall result in (i) full acceleration of vesting of any then unvested Performance Share Awards and payout as soon as administratively practicable in a lump sum of such accelerated Performance Shares and accrued dividend equivalents thereon to the Participant (or the Participant's beneficiary or estate in the event of death) and (ii) forfeiture of all opportunity to receive a Performance Share Award for any Open Performance Period.

11. CHANGE IN CONTROL.

(a) Termination of Participant's employment with the Company or a Subsidiary by the Company without Cause (but not by reason of Participant's death or Disability) or by Participant for Good Reason, each within 24 months following a Change in Control, shall result in the following:

(1) Full acceleration of vesting and payout as soon as administratively practicable in a lump sum of such accelerated Performance Shares and accrued dividend equivalents thereon to the Participant;

(2) Automatic grant of a Performance Share Award equal to fifty percent (50%) of any of Participant's unearned Award Values (without regard to the Company Performance Goal or Participant's individual performance objectives) for any Open Performance Periods. Such Performance Share Award shall be fully vested and payable as soon as administratively practicable in a lump sum. The number of Shares subject to such Performance Share Award shall be determined based on the closing price of the Company's Common Stock on the last business day immediately prior to the termination of employment; and

(3) Immediate termination and forfeiture of the remaining (50%) of any of Participant's unearned Award Values for any Open Performance Period.

(b) In the event the Performance Share Awards Terms and Conditions are terminated following a Change in Control but prior to the Termination Date, the following shall apply:

(1) Subject to Sections 10(b) and 11(a)(1), any unvested Performance Share Awards and accrued dividend equivalents thereon shall continue to vest in accordance with its existing vesting schedule;

(2) Participant shall be automatically granted a Performance Share Award, effective immediately prior to the termination of the Performance Share Awards Terms and Conditions, equal to fifty percent (50%) of any of Participant's unearned Award Values (without regard to the Company Performance Goal or Participant's individual performance objectives) for any Open Performance Period. The number of shares subject to such Performance Share Award shall be determined based on the closing price of the Company's Common Stock on the last business day immediately prior to the termination of the Performance Share Awards Terms and Conditions. Subject to Sections 10(b) and 11(a)(1), such Performance Share Award shall vest in accordance with the vesting schedule attributable to the underlying Open Performance Period of each such Performance Share Award, with the first vesting date beginning on the last day of the calendar quarter in which such Performance Share Award was granted.

(3) The remaining (50%) of any of Participant's unearned Award Values for any Open Performance Period shall terminate in full and Participant shall not be entitled to any Performance Share Award in respect of such Award Values.

(4) Example:

(i) Facts: Participant was granted an Award Value of \$100,000 for 2008, \$125,000 for 2009, \$150,000 for 2010, \$200,000 for 2011 and \$250,000 for 2012. The Company achieved the 2008 Company Performance Goal, but did not achieve the 2009 Company Performance Goal. In 2010, the Company was acquired in a transaction that constituted a Change in Control and in the same year, the successor corporation terminated the Performance Share Awards Terms and Conditions. The closing price of the Company's Common Stock on the day prior to the termination of the Performance Share Awards Terms and Conditions was \$100.00 per share.

(ii) Awards: The Performance Share Award granted in respect of the 2008 Performance Period would continue to vest according to its existing schedule. As a result of the termination of the Performance Share Awards Terms and Conditions, each Participant would be granted four separate Performance Share Awards.

- The Performance Share Award in respect of the 2009 Performance Period would have a dollar value of \$62,500 ($50\% \times \$125,000$) and would cover 625 shares ($\$62,500 \div 100.00$ per share), if applicable. This Performance Share Award would vest in quarterly installments over a period of thirty-six months, beginning the last day of the calendar quarter in the year of grant.

- The Performance Share Award in respect of the 2010 Performance Period would have a dollar value of \$75,000 (50% x \$150,000) and would cover 750 shares ($\$75,000 \div 100.00$ per share), if applicable. This Performance Share Award would vest in quarterly installments over a period of twenty-four months, beginning the last day of the calendar quarter in the year of grant.
- The Performance Share Award in respect of the 2011 Performance Period would have a dollar value of \$100,000 (50% x \$200,000) and would cover 1,000 shares ($\$100,000 \div 100.00$ per share), if applicable. This Performance Share Award would vest in quarterly installments over a period of twenty-four months, beginning the last day of the calendar quarter in the year of grant.
- The Performance Share Award in respect of the 2012 Performance Period would have a dollar value of \$125,000 (50% x \$250,000) and would cover 1,250 shares ($\$125,000 \div 100.00$ per share). This Performance Share Award would vest in quarterly installments over a period of twelve months, beginning the last day of the calendar quarter in the year of grant.

12. EXPIRATION OF THE PERFORMANCE SHARE AWARDS TERMS AND CONDITIONS; TERMINATION OF THE PERFORMANCE SHARE AWARDS TERMS AND CONDITIONS.

(a) The Performance Share Awards Terms and Conditions shall automatically terminate on the date the Committee determines the grants of Performance Share Awards, if any, in respect of 2012 Performance Period (the "Termination Date"). Any Open Performance Periods as of such date shall be immediately terminated and Participant shall not be entitled to any Performance Share Award for any remaining Open Performance Period.

(b) Except as set forth in Section 11(b), in the event the Performance Share Awards Terms and Conditions are terminated prior to the Termination Date, the following shall apply:

(1) Subject to Section 10(b), any unvested Performance Share Awards and accrued dividend equivalents thereon shall continue to vest in accordance with its existing vesting schedule; and

(2) Participant shall be automatically granted a Performance Share Award, effective immediately prior to the termination of the Performance Share Awards Terms and Conditions, equal to fifty percent (50%) of any of Participant's unearned Award Values (without regard to the Company Performance Goal or Participant's individual performance objectives) for any Open Performance Period. The number of shares subject to such Performance Share Award shall be determined based on the closing price of the Company's Common Stock on the last business day immediately prior to the termination of the Performance Share Awards Terms and Conditions. Subject to Section 10(b), such Performance Share Award shall vest in

accordance with the vesting schedule attributable to the underlying Open Performance Period of each such Performance Share Award, with the first vesting date beginning on the last day of the calendar quarter in which such Performance Share Award was granted.

(3) The remaining (50%) of any of Participant's unearned Award Values shall terminate in full and Participant shall not be entitled to any Performance Share Award in respect of such unearned Award Values.

13. UNFUNDED STATUS OF THE PERFORMANCE SHARE AWARDS TERMS AND CONDITIONS.

The Performance Share Awards Terms and Conditions is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Robert L. Evans, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Churchill Downs Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2008

/s/ Robert L. Evans

Robert L. Evans
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, William E. Mudd, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Churchill Downs Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2008

/s/ William E. Mudd

William E. Mudd

Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

**Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Churchill Downs Incorporated (the "Company") for the quarterly period ended March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Robert L. Evans, as President and Chief Executive Officer (Principal Executive Officer) of the Company, and William E. Mudd, as Executive Vice President and Chief Financial Officer (Principal Financial Officer) of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert L. Evans

Robert L. Evans
President and Chief Executive Officer
(Principal Executive Officer)
May 6, 2008

/s/ William E. Mudd

William E. Mudd
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
May 6, 2008

This certification is being furnished to the Securities and Exchange Commission as an exhibit to the Report and shall not be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Churchill Downs Incorporated and will be retained by Churchill Downs Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.