

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

**For the quarterly period ended September 30, 2003**

**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, KY 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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of registrant's common stock at November 12, 2003 was 13,230,436 shares.

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands)

ASSETS	September 30, 2003 (unaudited)	December 31, 2002	September 30, 2002 (unaudited)
Current assets:			
Cash and cash equivalents	\$ 17,524	\$ 14,662	\$ 15,575
Restricted cash	2,883	3,247	3,755
Accounts receivable, net	36,134	34,435	25,153
Deferred income taxes	2,584	2,159	1,734
Other current assets	7,397	5,988	6,107
<b>Total current assets</b>	<b>66,522</b>	<b>60,491</b>	<b>52,324</b>
Other assets	14,761	10,606	11,456
Plant and equipment, net	349,341	338,381	341,127
Goodwill, net	52,239	52,239	52,239
Other intangible assets, net	7,222	7,495	7,587
	<b>\$ 490,085</b>	<b>\$ 469,212</b>	<b>\$ 464,733</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 34,131	\$ 31,189	\$ 34,595
Accrued expenses	31,710	31,782	34,535
Dividends payable	-	6,578	-
Income taxes payable	12,650	727	465

Deferred revenue	9,738	14,876	3,149
Long-term debt, current portion	515	508	471
<b>Total current liabilities</b>	<b>88,744</b>	<b>85,660</b>	<b>73,215</b>
Long-term debt, due after one year	114,438	122,840	123,922
Other liabilities	13,803	12,603	13,748
Deferred income taxes	13,099	13,112	15,115
<b>Total liabilities</b>	<b>230,084</b>	<b>234,215</b>	<b>226,000</b>
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; issued: 13,199 shares September 30, 2003, 13,157 shares December 31, 2002, and 13,135 shares September 30, 2002	127,193	126,043	125,574
Retained earnings	133,653	109,241	113,832
Accumulated other comprehensive loss	(845)	(222)	(608)
Note receivable for common stock	-	(65)	(65)
	260,001	234,997	238,733
	\$ 490,085	\$ 469,212	\$ 464,733

The accompanying notes are an integral part of the condensed consolidated financial statements.

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS**  
**for the nine and three months ended September 30, 2003 and 2002**  
**(Unaudited)**  
**(In thousands, except per share data)**

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2003	2002	2003	2002
Net revenues	\$ 331,810	\$ 329,186	\$ 117,525	\$ 125,587
Operating expenses	262,338	263,994	95,371	101,564
Gross profit	69,472	65,192	22,154	24,023
Selling, general and administrative expenses	25,429	25,580	8,556	8,312
Operating income	44,043	39,612	13,598	15,711
Other income (expense):				
Interest income	1,196	254	1,061	80
Interest expense	(4,716)	(6,946)	(1,410)	(1,979)
Miscellaneous, net	575	(1,177)	22	(586)
	(2,945)	(7,869)	(327)	(2,485)
Earnings before provision for income taxes	41,098	31,743	13,271	13,226
Provision for income taxes	(16,686)	(12,761)	(5,388)	(5,317)
Net earnings	\$ 24,412	\$ 18,982	\$ 7,883	\$ 7,909
Net earnings per common share data:				
Basic	\$1.85	\$1.45	\$0.60	\$0.60
Diluted	\$1.82	\$1.42	\$0.59	\$0.59
Weighted average shares outstanding:				
Basic	13,175	13,115	13,192	13,126
Diluted	13,377	13,342	13,396	13,351

The accompanying notes are an integral part of the condensed consolidated financial statements.

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**for the nine months ended September 30,**  
**(Unaudited)**  
**(in thousands)**

	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 24,412	\$ 18,982
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	15,315	14,613
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Restricted cash	364	6,950
Accounts receivable	(1,699)	6,022
Other current assets	(1,409)	(4,079)
Accounts payable	5,743	(6,047)
Accrued expenses	(1,120)	5,384
Income taxes payable	11,923	(506)
Deferred revenue	(5,138)	(11,092)
Other assets and liabilities	(1,197)	2,612
	<u>47,194</u>	<u>32,839</u>
<b>Cash flows from investing activities:</b>		
Additions to plant and equipment, net	(25,440)	(16,048)
	<u>(25,440)</u>	<u>(16,048)</u>
<b>Cash flows from financing activities:</b>		
Decrease in long-term debt, net	(395)	(1,087)
Repayments of revolving loan facility for refinancing	(120,929)	-
Proceeds from senior notes, net of expenses	98,229	-
Borrowings on bank line of credit	253,881	205,360
Repayments of bank line of credit	(240,952)	(213,228)
Change in book overdraft	(3,363)	(2,098)
Proceeds from note receivable for common stock	65	-
Payment of dividends	(6,578)	(6,549)
Common stock issued	1,150	824
	<u>(18,892)</u>	<u>(16,778)</u>
Net increase in cash and cash equivalents	2,862	13
Cash and cash equivalents, beginning of period	14,662	15,562
	<u>\$ 17,524</u>	<u>\$ 15,575</u>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 4,768	\$ 6,527
Income taxes	\$ 4,689	\$ 13,267
<b>Schedule of non-cash activities:</b>		
Plant and equipment additions included in accounts payable	\$ 562	-

The accompanying notes are an integral part of the condensed consolidated financial statements.

1. Basis of Presentation

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of 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 Form 10-Q may wish to refer to the Company's Form 10-K for the period ended December 31, 2002 for further information. The accompanying condensed consolidated financial statements have been prepared in accordance with the registrant's customary accounting practices and have not been audited. Certain prior-period financial statement amounts have been reclassified to conform to the current-period presentation. 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.

Our revenues and earnings are significantly influenced by our 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. We historically have very few live racing days during the first quarter, with a majority of our live racing occurring in the second, third and fourth quarters, including the running of the Kentucky Derby and Kentucky Oaks in the second quarter.

2. Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees". Had the compensation cost for our stock-based compensation plans been determined consistent with Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock-based Compensation" the Company's net earnings and net earnings per common share for the nine and three months ended September 30, 2003 and 2002 would approximate the pro forma amounts presented below:

	<u>Nine Months Ended September 30,</u>	
	<u>2003</u>	<u>2002</u>
Net earnings	\$ 24,412	\$ 18,982
Pro forma stock-based compensation expense, net of tax benefit	(1,550)	(1,253)
Pro forma net earnings	\$ 22,862	\$ 17,729
Pro forma net earnings per common share:		
Basic	\$1.74	\$1.35
Diluted	\$1.71	\$1.33

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**for the nine months ended September 30, 2003 and 2002 (Unaudited)**  
**(\$ in thousands, except per share data)**

2. Stock-Based Compensation (cont'd)

	<u>Three Months Ended September 30,</u>	
	<u>2003</u>	<u>2002</u>
Net earnings	\$ 7,883	\$ 7,909
Pro forma stock-based compensation expense, net of tax benefit	(628)	(556)
Pro forma net earnings	\$ 7,255	\$ 7,353
Pro forma net earnings per common share:		
Basic	\$0.55	\$0.56
Diluted	\$0.54	\$0.55

The effects of applying SFAS No. 123 in this pro forma disclosure are unlikely to be representative of the effects on pro forma net income for future years since variables such as option grants, exercises, and stock price volatility included in the disclosures may not be indicative of future activity. We anticipate making awards in the future under stock-based compensation plans.

3. Long-Term Debt

Long-term debt is as follows:

	<u>As of</u> <u>September 30, 2003</u>	<u>As of</u> <u>December 31, 2002</u>	<u>As of</u> <u>September 30, 2002</u>
\$250 million revolving credit facility	\$ -	\$116,000	\$116,888
\$100 million variable rate senior notes	100,000	-	-
\$200 million revolving credit facility	8,000	-	-
Other notes payable	6,953	7,348	7,505

In April 2003, the Company refinanced its \$250 million revolving credit facility to meet funding needs for future working capital, capital improvements and potential future acquisitions. The refinancing included a new \$200.0 million revolving line of credit through a syndicate of banks with a five-year term and \$100.0 million in variable rate senior notes issued by the Company with a seven-year term. Both debt facilities are collateralized by substantially all of the assets of the Company and its wholly owned subsidiaries. The interest rate on the bank line of credit is based upon LIBOR plus a spread of 125 to 225 basis points, determined by certain Company financial ratios. The interest rate on the Company's senior notes is equal to three month LIBOR plus 155 basis points. The weighted average interest rate on these outstanding borrowings was 2.64% and 2.61% at September 30, 2003 and 2002, respectively. These interest rates are partially hedged by the interest rate swap contracts entered into by the Company as described in Note 4. These notes require interest only payments during their term with principal due at maturity. Both debt facilities contain financial and other covenant requirements, including specific fixed charge and leverage ratios, as well as minimum levels of net worth. The Company repaid its previously existing revolving line of credit during the second quarter of 2003 with proceeds from the new facilities.

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**for the nine months ended September 30, 2003 and 2002 (Unaudited)**  
**(\$ in thousands, except per share data)**

4. Financial Instruments

In order to mitigate a portion of the market risk on variable rate debt, the Company entered into interest rate swap contracts with major financial institutions in March 2003. Under terms of these contracts we receive a three-month LIBOR based variable interest rate and pay a fixed interest rate on notional amounts totaling \$60.0 million. As a result of these contracts, the Company will pay a fixed interest rate of approximately 3.55% on \$60.0 million of the variable rate debt described in Note 3. We also received a three-month LIBOR based variable interest rate of 1.10% during the three months ended September 30, 2003. The interest rate paid on the contracts is determined based on LIBOR on the last day of each March, June, September and December, which is consistent with the variable rate determination on the underlying debt. These contracts mature in March 2008.

The Company also had two interest rate swaps in effect at September 30, 2002 on which the Company received a LIBOR-based variable rate and paid a fixed interest rate. Terms of the swaps were as follows:

<u>Notional Amount</u>	<u>Termination Date</u>	<u>Fixed Rate</u>
\$30 million	November 2002	6.40%
\$35 million	March 2003	7.015%

The Company has designated its interest rate swaps as cash flow hedges of anticipated interest payments under its variable rate agreements. Gains and losses on these swaps that were recorded in other comprehensive earnings will be reclassified into net earnings as interest expense, net in the periods in which the related variable interest is paid.

Comprehensive earnings consist of the following:

	<u>Nine months ended September 30,</u>	
	<u>2003</u>	<u>2002</u>
Net Earnings	\$24,412	\$18,982
Cash flow hedging (net of related tax benefit of \$425 in 2003 and tax provision of \$1,077 in 2002)	(623)	1,692
Comprehensive earnings	<u>\$23,789</u>	<u>\$20,674</u>
	<u>Three months ended September 30,</u>	
	<u>2003</u>	<u>2002</u>
Net Earnings	\$7,883	\$7,909
Cash flow hedging (net of related tax provision of \$460 in 2003 and \$288 in 2002)	672	453
Comprehensive earnings	<u>\$8,555</u>	<u>\$ 8,362</u>

5. Earnings Per Share

The following is a reconciliation of the numerator and denominator of the earnings per common share computations:

	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Numerator for basic and diluted earnings per share:	\$24,412	\$18,982	\$ 7,883	\$ 7,909
Denominator for weighted average shares of common stock outstanding per share:				
Basic	13,175	13,115	13,192	13,126
Plus dilutive effect of stock options	202	227	204	225
Diluted	13,377	13,342	13,396	13,351
Earnings per common share:				
Basic	\$ 1.85	\$ 1.45	\$ 0.60	\$ 0.60
Diluted	\$ 1.82	\$ 1.42	\$ 0.59	\$ 0.59

Options to purchase 172 and 4 shares for the periods ended September 30, 2003 and 2002, respectively, 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.

6. Goodwill and Other Intangible Assets

The Company performs annual testing of goodwill and indefinite lived intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." The Company completed the required impairment tests of goodwill and indefinite lived intangible assets during the three months ended March 31, 2003, and no adjustment to the carrying value of goodwill was required.

Effective January 1, 2002, a portion of the goodwill arising from the Company's previous acquisitions was reassigned to the new Churchill Downs Simulcast Network ("CDSN") segment using a relative fair value allocation approach. There has been no change to the carrying value of the Company's net goodwill since January 1, 2002. Net goodwill at September 30, 2003 and 2002 for Kentucky Operations, Calder Racecourse and CDSN was \$4.8 million, \$36.4 million and \$11.0 million, respectively.

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**for the nine months ended September 30, 2003 and 2002 (Unaudited)**  
**(\$ in thousands, except per share data)**

6. Goodwill and Other Intangible Assets (cont'd)

The Company's other intangible assets are comprised of the following:

	<b>As of</b>	<b>As of</b>	<b>As of</b>
	<b>September 30, 2003</b>	<b>December 31, 2002</b>	<b>September 30, 2002</b>
Illinois Horse Race Equity fund	\$ 3,307	\$ 3,307	\$ 3,307
Arlington Park trademarks	494	494	494
Indiana racing license	2,085	2,085	2,085
Other intangible assets	3,296	3,296	3,296
	9,182	9,182	9,182
Accumulated amortization	(1,960)	(1,687)	(1,595)
	\$ 7,222	\$ 7,495	\$ 7,587

Other intangible assets with indefinite useful lives total \$3.8 million and consist primarily of a future right to participate in the Illinois Horse Race Equity fund, which has not been amortized since the Arlington Park merger in September 2000.

Other intangible assets, which are being amortized, are recorded at approximately \$3.4 million at September 30, 2003, which is net of accumulated amortization of \$2.0 million. Amortization expense for other intangibles of approximately \$273 and \$274 for the nine months ended September 30, 2003 and 2002, respectively, is classified in operating expenses.

Future estimated aggregate amortization expense on other intangible assets for each of the five fiscal years are as follows:

	<b>Estimated</b>
	<b>Amortization Expense</b>
2003	365
2004	167

2005	167
2006	167
2007	167

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**for the nine months ended September 30, 2003 and 2002 (Unaudited)**  
**(\$ in thousands, except per share data)**

7. Segment Information

The Company has determined that it currently operates in the following seven segments: (1) Kentucky Operations, including Churchill Downs racetrack and its off-track betting facility (“OTB”) and Ellis Park racetrack and its on-site simulcast facility; (2) Hollywood Park racetrack and its on-site simulcast facility; (3) Calder Racecourse; (4) Arlington Park and its seven OTBs; (5) Hoosier Park racetrack and its on-site simulcast facility and the other three Indiana simulcast facilities; (6) CDSN, the principal simulcast product provider of the Company; and (7) other investments, including Charlson Broadcast Technologies LLC (“CBT”) and the Company’s other various equity interests which are not material. Intercompany net revenues are generated from transactions with other operating segments primarily for activity between CDSN and our racetracks for the purchase of racing signals. Eliminations include the elimination of CDSN activity, management fees and other intersegment transactions.

The Company’s recurring revenues are generated from commissions on pari-mutuel wagering at the Company’s racetracks and OTBs (net of state pari-mutuel taxes), plus simulcast host fees and source market fees generated from contracts with our in-home wagering providers. In addition to the commissions earned on pari-mutuel wagering we earn pari-mutuel related streams of revenues from sources that are not related to wagering. These other revenues are primarily derived from statutory racing regulations in some of the states where our facilities are located and can fluctuate year-to-year. Non-wagering revenues are primarily generated from admissions, sponsorship, licensing rights and broadcast fees, Indiana riverboat admissions subsidy, lease income and other sources.

The accounting policies of the segments are the same as those described in the “Summary of Significant Accounting Policies” in the Company’s annual report to stockholders for the year ended December 31, 2002. The Company uses revenues and EBITDA (defined as earnings before interest, taxes, depreciation and amortization) as key performance measures of 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, our 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 income (as determined in accordance with accounting principles generally accepted in the United States of America) as a measure of our 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 our liquidity.

**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**for the nine months ended September 30, 2003 and 2002 (Unaudited)**  
**(\$ in thousands, except per share data)**

7. Segment Information (cont’d)

The table below presents information about reported segments for the nine months and three months ended September 30, 2003 and 2002:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2003	2002	2003	2002
<b>Net revenues from external customers:</b>				
Kentucky Operations	\$ 71,651	\$ 70,886	\$ 13,799	\$ 14,879
Hollywood Park	56,060	58,769	14,295	16,552
Arlington Park	67,917	61,467	33,870	35,050
Calder Race Course	42,721	43,407	22,733	23,734
Hoosier Park	31,170	41,176	10,719	14,547
CDSN	58,742	50,373	20,754	19,631
	<u>328,261</u>	<u>326,078</u>	<u>116,170</u>	<u>124,393</u>
Total racing operations	328,261	326,078	116,170	124,393
Other investments	2,548	2,251	1,295	1,147
Corporate revenues	1,001	857	60	47
	<u>\$ 331,810</u>	<u>\$ 329,186</u>	<u>\$ 117,525</u>	<u>\$ 125,587</u>
<b>Intercompany net revenues:</b>				
Kentucky Operations	\$ 20,517	\$ 16,860	\$ 4,288	\$ 3,516



Hollywood Park	8,951	8,392	2,045	2,122
Arlington Park	8,667	7,209	5,935	5,992
Calder Race Course	7,801	7,285	4,216	4,133
Hoosier Park	89	111	52	77
Total racing operations	46,025	39,857	16,536	15,840
Other investments	1,468	1,571	569	695
Corporate expenses	765	1,103	213	302
Eliminations	(48,258)	(42,531)	(17,318)	(16,837)
	\$ -	\$ -	\$ -	\$ -
<b>EBITDA:</b>				
Kentucky Operations	\$ 20,642	\$ 17,754	\$ (2,628)	\$ (1,946)
Hollywood Park	7,513	8,577	174	1,771
Arlington Park	11,433	6,552	10,475	9,040
Calder Race Course	7,584	7,137	6,122	6,318
Hoosier Park	1,872	5,854	653	1,976
CDSN	14,423	12,036	5,060	4,531
Total racing operations	63,467	57,910	19,856	21,690
Other investments	1,076	(300)	610	52
Corporate expenses	(4,610)	(4,500)	(1,702)	(1,665)
Eliminations	-	(62)	-	-
	\$ 59,933	\$ 53,048	\$ 18,764	\$ 20,077

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**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
for the nine months ended September 30, 2003 and 2002 (Unaudited)  
(\$ in thousands, except per share data)

7. Segment Information (cont'd)

	As of <u>September 30, 2003</u>	As of <u>December 31, 2002</u>	As of <u>September 30, 2002</u>
<b>Total assets:</b>			
Kentucky Operations	\$ 413,767	\$ 396,998	\$ 388,879
Hollywood Park	144,199	150,627	148,437
Arlington Park	90,583	80,766	84,959
Calder Race Course	85,007	87,498	85,370
Hoosier Park	39,710	34,759	37,798
CDSN	11,018	11,018	11,018
Other investments	86,961	77,724	54,400
	871,245	839,390	810,861
Eliminations	(381,160)	(370,178)	(346,128)
	\$ 490,085	\$ 469,212	\$ 464,733

Following is a reconciliation of total EBITDA to net earnings:

	Nine Months Ended <u>September 30,</u>		Three Months Ended <u>September 30,</u>	
	2003	2002	2003	2002
Total EBITDA	\$ 59,933	\$ 53,048	\$ 18,764	\$ 20,077
Depreciation and amortization	(15,315)	(14,613)	(5,144)	(4,952)
Interest income (expense), net	(3,520)	(6,692)	(349)	(1,899)
Provision for income taxes	(16,686)	(12,761)	(5,388)	(5,317)
Net earnings	\$ 24,412	\$ 18,982	\$ 7,883	\$ 7,909

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**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**for the nine months ended September 30, 2003 and 2002 (Unaudited)**  
**(\$ in thousands, except per share data)**

8. Significant Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) issued SFAS No. 146 “Accounting for Exit or Disposal Activities.” SFAS No. 146 addresses the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including certain lease termination costs and severance-type costs under a one-time benefit arrangement rather than an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 requires liabilities associated with exit and disposal activities to be expensed as incurred and will be effective for exit or disposal activities that are initiated after December 31, 2002. Adoption of SFAS No. 146 did not impact the Company’s results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148 “Accounting for Stock-Based Compensation –Transition and Disclosure, an amendment of FASB Statement No. 123.” This Statement amends SFAS No. 123, “Accounting for Stock-Based Compensation,” to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Management does not currently expect to change its method of accounting treatment for stock options.

In April 2003, the FASB issued SFAS No. 149 “Amendment of Statement 133 on Derivative Instruments and Hedging Activities.” This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities.” The changes in SFAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS No. 149 is effective for contracts entered into or modified after September 30, 2003. Adoption of SFAS No. 149 did not impact the Company’s results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150 “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.” This statement established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities which are subject to the provisions of FASB No. 150 for the first fiscal period beginning after December 15, 2003. Adoption of SFAS No. 150 is not expected to impact the Company’s results of operations or financial position.

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**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**for the nine months ended September 30, 2003 and 2002 (Unaudited)**  
**(\$ in thousands, except per share data)**

8. Significant Accounting Pronouncements (cont’d)

In January 2003, the FASB issued FASB Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, and interpretation of SFAS No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34” (“FIN 45”). FIN 45 requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45 requires disclosure about each guarantee even if the likelihood of the guarantor’s having to make any payments under the guarantee is remote. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. Adoption of FIN 45 did not impact the Company’s results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51” (“FIN 46”). This Interpretation of Accounting Research Bulletin No. 51 “Consolidated Financial Statements,” requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. The effective date for variable interest entities created or acquired prior to February 1, 2003 has been deferred to December 15, 2003. Adoption of FIN 46 is not expected to impact the Company’s results of operations or financial position.

9. Related Party Transaction

During 2003, the Company was paid \$65 by the President and Chief Executive Officer of the Company for repayment of a note receivable to purchase shares of common stock. Notes receivable for common stock was classified in the balance sheet as a reduction of shareholders’ equity at December 31, 2002 and September 30, 2002.

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**CHURCHILL DOWNS INCORPORATED**  
**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. These statements represent our judgment concerning the future and are subject to risks and uncertainties that could cause our actual operating results and financial condition to differ materially. 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 our 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 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; a substantial change in law or regulations affecting our pari-mutuel activities; a substantial change in allocation of live racing days; litigation surrounding the Rosemont, Illinois, riverboat casino; changes in Illinois law that impact revenues of racing operations in Illinois; a decrease in riverboat admissions subsidy revenue from our Indiana operations; the impact of an additional Indiana racetrack and its facilities 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; our ability to execute our acquisition strategy and to complete or successfully operate planned expansion projects; our ability to adequately integrate acquired businesses; market reaction to our expansion projects; any business disruption associated with our facility renovations; the loss of our totalisator companies or their inability to keep their technology current; our accountability for environmental contamination; the loss of key personnel and the volatility of our stock price.

*You should read this discussion with the financial statements included in this report and the Company's Form 10-K for the period ended December 31, 2002, for further information.*

**Overview**

We conduct pari-mutuel wagering on live Thoroughbred, Quarter Horse and Standardbred horse racing and simulcast signals of races. Additionally, we offer racing services through our other interests.

We own and operate the Churchill Downs racetrack in Louisville, Kentucky, which has conducted Thoroughbred racing since 1875 and is internationally known as the home of the Kentucky Derby, and Ellis Park Race Course, Inc., a Thoroughbred racing operation in Henderson,

**CHURCHILL DOWNS INCORPORATED**  
**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (Continued)**

Kentucky (collectively referred to as "Kentucky Operations"). We also own and operate Hollywood Park, a Thoroughbred racing operation in Inglewood, California; Arlington Park, a Thoroughbred racing operation in Arlington Heights, Illinois; and Calder Race Course, a Thoroughbred racing operation in Miami, Florida. Additionally, we are the majority owner and operator of Hoosier Park in Anderson, Indiana, which conducts Thoroughbred, Quarter Horse and Standardbred horse racing. We conduct simulcast wagering on horse racing at eleven simulcast wagering facilities in Kentucky, Indiana and Illinois, as well as at our six racetracks.

The Churchill Downs Simulcast Network ("CDSN") segment was developed in 2002 to focus on the distribution of the Company's simulcast signal. CDSN provides the principal oversight of our interstate and international simulcast and wagering opportunities, as well as the marketing, sales, operations and data support efforts related to the Company-owned racing content.

Our revenues and earnings are significantly influenced by our live racing calendar. Therefore, revenues and operating results for any interim quarter are not generally 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. We historically have very few live racing days during the first quarter of each year, with a majority of our live racing occurring in the second, third and fourth quarters, including the running of the Kentucky Derby and Kentucky Oaks in the second quarter.

Our pari-mutuel revenues include commissions on pari-mutuel wagering at our racetracks and off-track betting facilities (net of state pari-mutuel taxes), plus simulcast host fees and source market fees generated from contracts with our in-home wagering providers. In addition to the commissions earned on pari-mutuel wagering we earn pari-mutuel related streams of revenues from sources that are not related to wagering. These other revenues are primarily derived from statutory racing regulations in some of the states where our facilities are located and can fluctuate year-to-year. Non-wagering revenues are primarily generated from admissions, sponsorships, licensing rights and broadcast fees, Indiana riverboat admissions subsidy, concessions, lease income and other sources.

Live racing handle includes patron wagers on live races at our tracks and also wagers made at our facilities on imported simulcast signals during live races. Import simulcasting handle includes wagers on imported signals at our racetracks when our respective tracks are not conducting live races and at our OTBs throughout the year. Export handle includes all patron wagers made on our live racing signals sent to other tracks or OTBs.

## Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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 could differ from those estimates. Our most significant estimates relate to the valuation of property and equipment, receivables, goodwill and other intangible assets, which

### **CHURCHILL DOWNS INCORPORATED ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

may be significantly affected by changes in the regulatory environment in which the company operates, and to the aggregate costs for self-insured liability claims. Our significant accounting policies are described in Note 1 to the consolidated financial statements included in Item 8 of the Company's Form 10-K for the period ended December 31, 2002.

Our business can be impacted positively and negatively by legislative changes and from alternative gaming competition. Significant negative changes resulting from these activities could result in a significant impairment of our property and equipment and/or our goodwill and intangible assets in accordance with generally accepted accounting standards.

For our business insurance renewal effective March 1, 2002, we assumed more risk than in the prior years, primarily through higher retentions and higher maximum losses for stop-loss insurance for certain coverages. Our March 1, 2003 business insurance renewals included substantially the same coverages and retentions as the 2002 renewal. Based on our historical loss experience, management does not anticipate that this increased risk assumption will materially impact our results of operations. Our ability to obtain insurance coverage at acceptable costs in 2004 under terms and conditions comparable to the current year is uncertain.

During December 2002, we reduced the carrying value of the buildings, equipment and furniture and fixtures of Ellis Park to reflect their estimated fair value in a divestiture transaction. Should a transaction not be completed at the currently estimated sales price, an additional write down of these assets could occur. Management will reassess the carrying value of Ellis Park during the three months ended December 31, 2003.

#### Legislative and Regulatory Changes

During the third quarter of 2003 the Indiana Horse Racing Commission ("IHRC") finalized decisions regarding riverboat subsidies. First the IHRC ruled that funds available to cover operating costs for 2002 for the two Indiana racetracks, Hoosier Park and Indiana Downs, will be split on the basis of purses generated by each racetrack. The IHRC also ruled that an additional 2002 supplemental riverboat subsidy, received in the third quarter of 2003, should be allocated as follows: one-half between the two Indiana racetracks on the basis of purses generated, and the remaining one-half allocated equally between the two Indiana racetracks. These riverboat subsidy revenues were accrued by Hoosier Park during 2002. On October 24, 2003 Indiana Downs filed a petition requesting a court to review the IHRC decision regarding the 2002 subsidy revenues. Indiana Downs maintains the full supplemental payment should be allocated equally between the two Indiana racetracks. Hoosier Park is a respondent in the court proceeding, and it supports the IHRC ruling. At this time, the outcome of the court proceedings is unknown, however, this could result in a reduction of \$0.7 million in riverboat subsidy revenues for Hoosier Park if the courts rule in favor of Indiana Downs.

Second the IHRC ruled that effective January 1, 2004 and thereafter the riverboat subsidy for purses and operating costs are to be split evenly between the two Indiana racetracks, which can be changed by the IHRC or by the enactment of legislation. This ruling is consistent with the earlier

### **CHURCHILL DOWNS INCORPORATED ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

ruling to evenly split the 2003 riverboat subsidy revenues between the two racetracks in Indiana reducing Hoosier Park's subsidy revenues, net of purse expenses, by approximately \$5 million in 2003 compared to 2002.

During January and February when there is no live racing in Illinois, the Illinois Racing Board ("IRB") appoints a Thoroughbred racetrack as the host track in Illinois. The IRB appointed Arlington Park as the host track in Illinois during January 2003 resulting in increased pari-mutuel revenues compared to the prior period. The IRB also appointed Arlington Park as the host track in Illinois for January and February 2004, which will result in an additional 18 host days at Arlington Park during 2004. Arlington Park's future appointment as the host track is subject to the annual appointment by the IRB.

A bill was filed in the 2003 session of the Illinois legislature, which would eliminate the statutory right of Arlington Park and the other Illinois racetracks to recapture amounts from their purse accounts. Since 2000, the Illinois General Assembly has appropriated money to reimburse each racetrack's purse account for

the amounts not recaptured from horsemen through reductions in future purses, however, the appropriation was vetoed by Illinois's governor during 2002 and the General Assembly did not make the appropriations in 2003. Illinois horsemen unsuccessfully petitioned the IRB to prevent the tracks from recapturing purse amounts in any year where Illinois does not appropriate funds for reimbursement. Subsequently, the Illinois horsemen have filed a lawsuit against the IRB and the Illinois racetracks, including Arlington Park, challenging the recapture of purse account amounts. We have elected to continue to recapture amounts while litigation is pending absent a corresponding reimbursement from the State of Illinois.

**CHURCHILL DOWNS INCORPORATED**  
**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (Continued)**

**RESULTS OF OPERATIONS**

Pari-mutuel wagering information, including intercompany transactions, for our CDSN segment and five live racing segments including on-site simulcast facilities and separate OTBs, which are included in their respective segments, during the nine months ended September 30, 2003 and 2002, is as follows (\$ in thousands):

	<u>Kentucky Operations</u>	<u>Hollywood Park</u>	<u>Calder Race Course</u>	<u>Arlington Park*</u>	<u>Hoosier Park</u>	<u>CDSN</u>
<b>Pari-mutuel wagering:</b>						
<b>Live Racing</b>						
2003 handle	\$108,086	\$120,463	\$135,942	\$ 58,183	\$ 5,818	-
2003 no. of days	93	65	113	104	73	-
2002 handle	\$108,620	\$127,199	\$140,672	\$ 52,803	\$ 9,732	-
2002 no. of days	93	65	113	86	115	-
<b>Export simulcasting**</b>						
2003 handle	\$ 36,957	\$233,604	\$185,945	\$ 36,800	\$ 54,324	\$1,635,515
2003 no. of days	93	65	113	104	73	375
2002 handle	\$ 34,730	\$247,607	\$187,115	\$ 36,235	\$ 56,344	\$1,442,007
2002 no. of days	93	65	113	86	115	357
<b>Import simulcasting</b>						
2003 handle	\$ 83,633	\$164,705	-	\$384,684	\$ 91,782	-
2003 no. of days	364	205	-	1,742	1,012	-
2002 handle	\$ 99,074	\$176,902	-	\$331,973	\$100,581	-
2002 no. of days	379	208	-	1,365	909	-
Number of OTBs	1	-	-	7	3	-
<b>Totals</b>						
2003 handle	\$228,676	\$518,772	\$321,887	\$479,667	\$151,924	\$1,635,515
2002 handle	\$242,424	\$551,708	\$327,787	\$421,011	\$166,657	\$1,442,007

**CHURCHILL DOWNS INCORPORATED**  
**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (Continued)**

	<u>Kentucky Operations</u>	<u>Hollywood Park</u>	<u>Calder Race Course</u>	<u>Arlington Park</u>	<u>Hoosier Park</u>	<u>CDSN</u>
<b>***Pari-mutuel revenues:</b>						
<b>2003 Revenues</b>						
Live racing	\$13,107	\$11,744	\$18,470	\$10,680	\$ 613	-
Export simulcasting	2,565	10,092	20,584	3,291	1,591	\$56,699
Import simulcasting	12,303	8,392	-	29,384	16,623	-
Other revenues	8,140	13,866	2,034	13,638	660	-

Total 2003 Revenues	\$36,115	\$44,094	\$41,088	\$56,993	\$19,487	\$56,699
<b>2002 Revenues</b>						
Live racing	\$13,490	\$12,900	\$19,206	\$ 9,741	\$ 972	-
Export simulcasting	2,279	11,306	20,991	3,032	1,584	\$48,599
Import simulcasting	14,090	8,674	-	26,002	18,427	-
Other revenues	8,542	12,798	1,579	12,722	428	-
Total 2002 Revenues	\$38,401	\$45,678	\$41,776	\$51,497	\$21,411	\$48,599

\*Arlington Park's seventh OTB opened during June 2003 and the sixth OTB opened during December 2002.

\*\* CDSN export simulcasting includes all interstate handle activity at our live racing segments except Hoosier Park. Hoosier Park export simulcasting includes interstate and intrastate handle activity for Hoosier Park racetrack.

\*\*\* Pari-mutuel revenues for live racing, export simulcasting and import simulcasting include commissions from wagering (net of state pari-mutuel taxes) and simulcast host fees. Other revenues includes source market fees from in-home wagering and other statutory racing revenues.

### Recent General Developments

During the third quarter of 2003, Arlington Park recorded a receivable for an Illinois real estate tax settlement agreed to during the quarter. The amount recorded, net of attorney's fees and other reductions, approximates \$3.1 million and is reflected as a reduction in operating expenses and \$1.0 million in earned interest income at statutory rates. We expect to finalize the settlement during the fourth quarter of 2003. The receivable bears interest at a statutory rate.

Also during the third quarter of 2003, Arlington Park recorded an expense of \$1.0 million related to the purse account reflecting the estimated impact of recovering the 2002 purse recapture over an extended period, rather than an immediate total recovery, as allowed by statute.

## CHURCHILL DOWNS INCORPORATED ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

We expect the ongoing renovations at our Kentucky Operations to impair our ability to achieve comparable attendance and wagering results during our Churchill Downs Fall Meet and the Churchill Downs clubhouse facility will remain closed for renovations until 2005.

### Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

#### Net Revenues

Net revenues during the nine months ended September 30, 2003 increased \$2.6 million from \$329.2 million in 2002 to \$331.8 million in 2003. Arlington Park revenues increased \$7.9 million primarily due to a change in the racing schedule which resulted in an additional 18 days of live racing during the first nine months of 2003 compared to 2002. Additionally, during January and February when there is no live racing in Illinois, the IRC appoints a Thoroughbred racetrack as the host track in Illinois. The IRC appointed Arlington Park as the host track in Illinois during January 2003 resulting in increased pari-mutuel revenues compared to the prior period. Kentucky Operations revenues increased \$4.4 million primarily due to record wagering for the Kentucky Derby and Kentucky Oaks and revenues from our new Jockey Club luxury suites for Kentucky Derby and Oaks days. CDSN revenues increased \$8.4 million primarily due to increases in overall interstate export simulcasting activity, 18 additional live race days at Arlington Park and record wagering on the Kentucky Oaks and Kentucky Derby days. These increases were partially offset by a \$7.4 million decrease in Indiana riverboat admissions subsidy at Hoosier Park resulting from regulatory changes requiring Hoosier Park to split the subsidy revenues with Indiana Downs. Hoosier Park also had a decrease in pari-mutuel revenues of \$1.9 million due to 42 fewer live Standardbred race days during 2003 compared to 2002. Net revenues increased less than the sum of the segment variances described above due to increases in intercompany eliminations of \$5.7 million resulting from the increased CDSN simulcasting activity.

#### Operating Expenses

Operating expenses decreased \$1.7 million from \$264.0 million in 2002 to \$262.3 million in 2003 primarily due to decreased purse expenses of \$4.7 million at Hoosier Park consistent with the decrease in Indiana riverboat admissions subsidy noted above. Other direct racing expenses at Hoosier Park decreased \$1.5 million primarily due to fewer days of racing. Kentucky Operations and Arlington Park also had increases in purse expenses of a combined \$5.5 million consistent with their increases in pari-mutuel revenues. Arlington Park also had a decrease in operating expenses of \$0.8 million due to an accrual for the agreed upon settlement of a claim for prior years' real estate taxes offset by increased racing expenses related to 18 additional live race days as well as the present value expense for a purse overpayment.

#### Gross Profit

Gross profit increased \$4.3 million from \$65.2 million in 2002 to \$69.5 million in 2003 primarily due to revenue growth during 2003 discussed above.

**CHURCHILL DOWNS INCORPORATED**  
**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (Continued)**

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses decreased by \$0.2 million from \$25.6 million in 2002 to \$25.4 million in 2003 primarily as a result of a decrease in legislative costs for our Kentucky Operations which were incurred during 2002 related to legislative alternative gaming initiatives. Overall cost management efforts to contain general and administrative costs resulted in additional decreased costs at our Kentucky Operations.

Other Income and Expense

Interest income increased \$0.9 million due to the interest component for the settlement of a claim for prior years' real estate taxes noted above.

Interest expense decreased \$2.2 million from \$6.9 million in 2002 to \$4.7 million in 2003 due to the lower interest rate environment and the use of available cash to pay down our line of credit.

Income Tax Provision

Our income tax provision increased \$3.9 million as a result of an increase in pre-tax earnings and an increase in our currently estimated effective income tax rate from 40.2% in 2002 to 40.6% in 2003.

**Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002**

Net Revenues

Net revenues during the three months ended September 30, 2003 decreased \$8.1 million from \$125.6 million in 2002 to \$117.5 million in 2003. Arlington Park revenues decreased \$1.2 million and Calder Race Course revenues decreased \$0.9 million both resulting primarily from one less day of live racing during the third quarter of 2003 compared to 2002. Hollywood Park revenues decreased \$2.3 million primarily due to decreased attendance and pari-mutuel wagering. Hoosier Park had a decrease of \$3.9 million primarily due to the decrease in Indiana riverboat admissions subsidy at Hoosier Park resulting from regulatory changes as well as a decrease in pari-mutuel revenues due to 35 fewer live Standardbred race days during the third quarter of 2003 compared to 2002. CDSN revenues increased \$1.1 million primarily due to increases in overall interstate export simulcasting activity at our Kentucky Operations and Calder Race Course.

Operating Expenses

Operating expenses decreased \$6.2 million from \$101.6 million in 2002 to \$95.4 million in 2003 primarily due to decreased expenses at Calder Race Course, Arlington Park and Hollywood Park resulting from the decreased number of live racing days, attendance and pari-mutuel wagering

**CHURCHILL DOWNS INCORPORATED**  
**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (Continued)**

noted above. Arlington Park also had a decrease in operating expenses of \$3.1 million due to a settlement of a claim for prior years' real estate taxes partially offset by a \$1.0 million expense related to the purse overpayment position. Hoosier Park operating expenses decreased \$2.6 million consistent with the decrease in Indiana riverboat admissions subsidy and 35 fewer live racing days during the third quarter of 2003 compared to 2002.

Gross Profit

Gross profit decreased \$1.8 million from \$24.0 million in 2002 to \$22.2 million in 2003 primarily due to decreased revenues for the three months ended September 30, 2003 discussed above. This decrease includes a decrease of \$1.1 million in Indiana riverboat admissions subsidy, net of purse expenses.

Selling, General and Administrative Expenses

SG&A expenses decreased slightly by \$0.2 million primarily as a result of cost management efforts to contain costs.

Other Income and Expense

Interest income increased \$1.0 million due to the interest component for the settlement of a claim for prior years' real estate taxes noted above.

Interest expense decreased \$0.6 million in 2003 due to the lower interest rate environment and the use of available cash to pay down our line of credit.

#### Income Tax Provision

Our income tax provision increased slightly by \$0.1 million as a result of an increase in our currently estimated effective income tax rate from 40.2% in 2002 to 40.6% in 2003.

#### Significant Changes in the Balance Sheet September 30, 2003 to December 31, 2002

Net plant and equipment increased \$11.0 million primarily as a result of capital expenditures of \$15.6 million related to the renovation plan to restore and modernize key areas at our Churchill Downs racetrack facility, referred to as our "Master Plan". Additional increases were due to routine capital spending at our operating units offset by depreciation of \$15.0 million.

Dividends payable decreased \$6.6 million at September 30, 2003 due to the payment of dividends in the first quarter of 2003.

Income taxes payable increased \$11.9 million due to the delayed timing of estimated federal income taxes to be paid in 2003.

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## **CHURCHILL DOWNS INCORPORATED**

### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Deferred revenue decreased \$5.1 million at September 30, 2003, primarily due to the significant amount of admissions and seat revenue that was received prior to December 31, 2002 and recognized as income in May 2003 for the Kentucky Derby and Kentucky Oaks race days.

The long-term debt decrease of \$8.4 million was a result of the use of current cash flows to reduce borrowings under our revolving line of credit since December 31, 2002.

#### Significant Changes in the Balance Sheet September 30, 2003 to September 30, 2002

Accounts receivable balances increased by \$11.0 million due to the timing of \$3.8 million in payments for Hoosier Park's Indiana riverboat admissions subsidy and \$2.1 million related to the short-term portion of Arlington Park's real estate taxes receivable. Additionally, Kentucky Operations accounts receivable increased \$2.4 million for the licensing of our new Jockey Club luxury suites and \$2.7 million due to the timing of invoicing for the 2004 Kentucky Derby and Kentucky Oaks.

Net plant and equipment increased \$8.2 million primarily as a result of capital expenditures related to the Churchill Downs Racetrack Master Plan. Additional increases were due to routine capital spending at our operating units offset by depreciation expense.

Income taxes payable increased \$12.2 million due to the timing of federal income taxes paid during 2002 compared to 2003.

Deferred revenue increased \$6.6 million at September 30, 2003, primarily due to the timing of Kentucky Operations invoicing for the 2004 Kentucky Derby and Kentucky Oaks resulting in an increase of \$2.7 million and \$3.6 million for the licensing of our new Jockey Club luxury suites.

The long-term debt decrease of \$9.5 million was a result of the use of current cash flows to reduce borrowings under our revolving line of credit since September 30, 2002.

#### Liquidity and Capital Resources

Cash flows provided by operations were \$47.2 million and \$32.8 million for the nine months ended September 30, 2003 and 2002, respectively. Cash provided by operations increased as compared to 2002 consistent with our results from operations and the timing of our federal income tax payments.

Cash flows used in investing activities were \$25.4 million and \$16.0 million for the nine months ended September 30, 2003 and 2002, respectively. During the nine months ended September 30, 2003 we used \$15.6 million in cash for the Master Plan renovation of our Churchill Downs racetrack. We are planning capital expenditures, including \$14.5 million for the completion of the first phase and \$24.0 million for the second phase of our Master Plan renovation, of approximately \$53.2 million in 2003.



**CHURCHILL DOWNS INCORPORATED**  
**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (Continued)**

Cash flows used in financing activities were \$18.9 million and \$16.8 million for the nine months ended September 30, 2003 and 2002, respectively, reflecting the use of cash flows from operations to minimize net borrowings on our debt facilities.

During April 2003, we refinanced our \$250 million revolving credit facility to meet our needs for funding future working capital, capital improvements and potential future acquisitions. The refinancing included a new \$200.0 million revolving line of credit through a syndicate of banks with a five-year term and \$100.0 million in variable rate senior notes issued by us with a seven-year term, of which \$108.0 million was outstanding in total at September 30, 2003. Both debt facilities are collateralized by substantially all of our assets. The interest rate on the bank line of credit is based upon LIBOR plus a spread of 125 to 225 basis points, determined by the Company's leverage ratio. The interest rate on our senior notes is equal to three-month LIBOR plus 155 basis points. These notes require interest only payments during their term with principal due at maturity. Both debt facilities contain financial and other covenant requirements, including specific fixed charge and leverage ratios, as well as minimum levels of net worth. We repaid our previously existing revolving line of credit during the second quarter of 2003 with proceeds from the new facilities. Management believes cash flows from operations and borrowings under our current financing facility will be sufficient to fund our cash requirements for the year.

**Significant Accounting Pronouncements**

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146 "Accounting for Exit or Disposal Activities." SFAS No. 146 addresses the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including certain lease termination costs and severance-type costs under a one-time benefit arrangement rather than an ongoing benefit arrangement or an individual deferred-compensation contract. SFAS No. 146 requires liabilities associated with exit and disposal activities to be expensed as incurred and will be effective for exit or disposal activities that are initiated after December 31, 2002. Adoption of SFAS No. 146 did not impact our results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation –Transition and Disclosure, an amendment of FASB Statement No. 123." This Statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Management does not currently expect to change its method of accounting treatment for stock options.

In April 2003, the FASB issued SFAS No. 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in

**CHURCHILL DOWNS INCORPORATED**  
**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (Continued)**

other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities." The changes in SFAS No. 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. SFAS No. 149 is effective for contracts entered into or modified after September 30, 2003. Adoption of SFAS No. 149 did not impact our results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement established standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities which are subject to the provisions of SFAS No. 150 for the first fiscal period beginning after December 15, 2003. Adoption of SFAS No. 150 is not expected to impact our results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, and interpretation of SFAS No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34" ("FIN 45"). FIN 45 requires that upon issuance of a guarantee, the entity must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45 requires disclosure about each guarantee even if the likelihood of the guarantor's having to make any payments under the guarantee is remote. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. Adoption of FIN 45 did not impact our results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51" ("FIN 46"). This Interpretation of Accounting Research Bulletin No. 51 "Consolidated Financial Statements," requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. The effective date for variable interest entities created or acquired prior to February 1, 2003 has been deferred to December 15, 2003. Adoption of FIN 46 is not expected to impact our results of operations or financial position.

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**CHURCHILL DOWNS INCORPORATED**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

At September 30, 2003, we had \$108.0 million of debt outstanding under our senior notes and 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 on the revolving loan facility remains constant, a one percentage point increase in the LIBOR rate would reduce annual pre-tax earnings and cash flows by \$1.1 million.

In order to mitigate a portion of the market risk associated with our variable rate debt, we entered into interest rate swap contracts with major financial institutions during March 2003. Under terms of these contracts we receive a LIBOR based variable interest rate and pay a fixed interest rate on notional amounts totaling \$60.0 million. As a result of these contracts, the Company will pay a fixed interest rate of approximately 3.55% on \$60.0 million of the floating rate debt described in Note 3 in this report. Assuming the September 30, 2003, notional amounts under the interest rate swap contracts remain constant, a one percentage point increase in the LIBOR rate would increase annual pre-tax earnings and cash flows by \$0.6 million.

**ITEM 4. CONTROLS AND PROCEDURES**

Under the supervision and with the participation of our management, including our president and Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report, and, based on their evaluation, our CEO and CFO have concluded that these controls and procedures are effective. There were no significant changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

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**PART II. OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

Calder Race Course is the defendant in the lawsuit, Linda Hughes vs. Calder Race Course, Inc., filed in the Circuit Court of the 11th Judicial Circuit, Dade County, Florida, on August 3, 2000. The lawsuit alleges Calder Race Course is liable for damages related to a former jockey who was injured during the course of a race in 1998, prior to our acquisition of Calder Race Course. In an August 2003 trial on liability only, a Florida jury found Calder Race Course 85% liable for damages. The amount of damages has not yet been determined. Calder Race Course has \$16.0 million in general liability and excess insurance coverage available to pay this claim. While it is not possible to ascertain the amount of damages on this claim at this time, Calder Race Course would be responsible for any damages in excess of its' insurance coverage.

**ITEM 2. Changes in 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 and Reports on Form 8-K.

A. Exhibits

See exhibit index.

B. Reports on Form 8-K filed or furnished with the Securities and Exchange Commission

- (1) Churchill Downs Incorporated furnished a Current Report on Form 8-K dated July 22, 2003, under Item 9, "Regulation FD Disclosure (Item 12. Results of Operations and Financial Condition)", furnishing our second quarter 2003 earnings release dated July 22, 2003.
- (2) Churchill Downs Incorporated filed a Current Report on Form 8-K/A dated August 18, 2003, under Item 5, "Other Events", to update the description of Churchill Downs Incorporated's common stock contained in its Current Report on Form 8-K filed December 14, 1998.

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**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

November 13, 2003

/s/ Thomas H. Meeker

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Thomas H. Meeker  
President and Chief Executive Officer  
(Principal Executive Officer)

November 13, 2003

/s/ Michael E. Miller

\_\_\_\_\_  
Michael E. Miller  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**EXHIBIT INDEX**

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
3	Amended and Restated Bylaws of Churchill Downs Incorporated	Report on Form 10-Q for the fiscal quarter ended September 30, 2003
10	Churchill Downs Incorporated Amended and Restated Incentive Compensation Plan (1997)	Report on Form 10-Q for the fiscal quarter ended September 30, 2003
31(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 September 30, 2003
31(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 September 30, 2003



**AMENDED AND RESTATED BYLAWS OF**

**CHURCHILL DOWNS INCORPORATED**

**ARTICLE I**  
**OFFICE AND SEAL**

SECTION 1. OFFICES. The principal office of the Corporation in the State of Kentucky shall be located at 700 Central Avenue, Louisville, Kentucky. The Corporation may have such other offices, either within or without the State of Kentucky, as the business of the Corporation may require from time to time.

SECTION 2. THE CORPORATE SEAL. The Seal of the Corporation shall be circular in form, mounted upon a metal die suitable for impressing same upon paper, and along the upper periphery of the seal shall appear the word "Churchill Downs" and along the lower periphery thereof the word "Kentucky". The center of the seal shall contain the word "Incorporated".

**ARTICLE II**  
**STOCKHOLDERS MEETINGS AND RECORD DATES**

SECTION 1. ANNUAL MEETING. The date of the annual meeting of the stockholders for the purpose of electing directors and for the transaction of such other business as may come before the meeting shall be established by the Board of Directors, but shall not be later than 180 days following the end of the Corporation's fiscal year. If the election of Directors shall not be held on the day designated for any annual meeting, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the stockholders to be held as soon thereafter as may be convenient.

SECTION 2. SPECIAL MEETINGS. Special meetings of the stockholders may be called by holders of not less than 66% of all shares entitled to vote at the meeting, or by a majority of the members of the Board of Directors.

SECTION 3. PLACE OF MEETING. The Board of Directors may designate any place within or without the State of Kentucky as the place of meeting for any annual meeting of stockholders, or any place either within or without the State of Kentucky as the place of meeting for any special meeting called by the Board of Directors.

If no designation is made, or if a special meeting be called by other than the Board of Directors, the place of meeting shall be the principal office of the Corporation in the State of Kentucky.

SECTION 4. NOTICE OF MEETINGS. Written notice stating the place, day and hour of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten (10) nor more than sixty (60) days before the date of the meeting, either personally or by mail, by or at the direction of the President, or the Secretary, or the officer or persons calling the meeting, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail in a sealed envelope addressed to the stockholder at his address as it appears on the records of the Corporation, with first class postage thereon prepaid.

SECTION 5. RECORD DATE. The Corporation's record date shall be fixed by the Board of Directors for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders, or stockholders entitled to receive any distribution. When a determination of stockholders entitled to vote at any meeting of stockholders has been made as provided herein, such determination shall apply to any adjournment thereof.

SECTION 6. VOTING LISTS AND SHARE LEDGER. The Secretary shall prepare a complete list of the stockholders entitled to vote at any meeting, or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each stockholder, which list shall be produced and kept open at the meeting and shall be subject to the inspection of any stockholder during the meeting. The original share ledger or stock transfer book, or a duplicate thereof kept in this State, shall be prima facie evidence as to the stockholders entitled to examine such list or share ledger or stock transfer book, or the stockholders entitled to vote at any meeting of stockholders or to receive any dividend.

SECTION 7. QUORUM. A majority of the outstanding shares entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of stockholders. The stockholders present at a duly organized meeting can continue to do business at any adjourned meeting, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

SECTION 8. PROXIES. At all meetings of stockholders, a stockholder may vote by proxy. An appointment of a proxy shall be executed in writing by the stockholder or by his duly authorized attorney-in-fact and be filed with the Secretary of the Corporation before or at the time of the meeting.

SECTION 9. NATURE OF BUSINESS. At any meeting of stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors or by any stockholder who complies with the procedures set forth in this Section 9.

No business may be transacted at any meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before such meeting of stockholders by or at the direction of the Board of Directors, or (c) in the case of any annual meeting of stockholders or a special meeting called for the purpose of electing directors, otherwise properly brought before such meeting by any stockholder (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 9 and on the record date for the determination of stockholders entitled to vote at such meeting of stockholders and (ii) who complies with the notice procedures set forth in this Section 9.

In addition to any other applicable requirements, for business to be properly brought before any annual meeting of stockholders by a stockholder, or for a nomination of a person to serve as a Director, to be made by a stockholder, such stockholder must have given timely notice thereof in proper written form to the Secretary.

To be timely, a stockholder's notice to the Secretary must be delivered or mailed to and be received at the principal executive offices of the Corporation (a) in the case of the annual meeting of stockholders, not less than ninety(90) nor more than one hundred and twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting of stockholders is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder, in order to be timely, must be so received not later than the close of business on the tenth (10th) day following the day on which notice of the date of the annual meeting of stockholders was mailed or public disclosure of the date of such meeting was made, whichever first occurs; and (b) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting of stockholders was mailed or public disclosure of the date of such meeting was made, whichever first occurs.

To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter (including nominations) such stockholder proposes to bring before the meeting of stockholders (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting the business at the meeting, (b) the name and record address of such stockholder, (c) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder as of the record date for the meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice, (d) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business, (e) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person and (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the person as of the record date for the meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice, (f) any other information which would be required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitations of proxies for the proposal (including, if applicable, with respect to the election of directors) pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder if such stockholder were engaged in such solicitation, and (g) a representation that such stockholder intends to appear in person or by proxy at the meeting to bring such business before the meeting. Any notice concerning the nomination of a person for election as a director must be accompanied by a written consent of the proposed nominee to being named as a nominee and to serve as a director if elected.

No business shall be conducted and no person shall be eligible for election as a Director at any annual meeting of stockholders or a special meeting of stockholders called for the purpose of electing directors except business or nominations brought before such meeting in accordance with the procedures set forth in this Section 9; provided, however, that, once business has been properly brought before the meeting in accordance with such procedures, nothing in this Section 9 shall be deemed to preclude discussion by any stockholder of any such business. If the chairman of the meeting of stockholders determines that business was not properly brought before such meeting, or a nomination was not properly made, as the case may be, in accordance with the foregoing procedures, the chairman shall declare to the meeting that (a) the business was not properly brought before the meeting and such business shall not be transacted, or, if applicable, (b) the nomination was defective and such defective nomination shall be disregarded.

### **ARTICLE III** **DIRECTORS**

SECTION 1. GENERAL POWERS. The business and affairs of the Corporation shall be managed by a Board of Directors.

SECTION 2. NUMBER AND TENURE. The Board of Directors shall consist of fourteen (14) members but the number may be increased or decreased by amendment of this Bylaw. The Directors shall be divided into three classes, consisting of four (4) Class I Directors, five (5) Class II Directors and five (5) Class III Directors. Each director shall hold office for a term of three (3) years or until his successor shall have been elected and qualifies for the office, whichever period is longer. A person shall not be qualified for election as a Director unless he shall be less than seventy (70) years of age on the date of election. Each Director shall become a Director Emeritus upon expiration of his current term following the date the Director is no longer qualified for election as a Director due to age. Directors Emeritus may attend all regular and special meetings of the Board of Directors and shall serve in an advisory capacity without a vote in Board actions.

SECTION 3. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this bylaw, immediately after, and at the same place as, the annual meeting of stockholders. The Board of Directors may provide, by resolution, the time and place, either within or without the State of Kentucky, for the holding of additional regular meetings without other notice than such resolution.

SECTION 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the President, the Chairman of the Board or the majority of the Board of Directors. The person or persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Kentucky, as the place for holding any special meeting of the Board of Directors.

SECTION 5. NOTICE. Notice of any special meeting of the Board of Directors shall be given by notice delivered personally, by mail, by telegraph or by telephone. If mailed, such notice shall be given at least five (5) days prior thereto and such mailed notice shall be deemed to have been delivered upon the earlier of receipt or five (5) days after it is deposited in the United States mail in a sealed envelope so addressed, with first class postage thereon prepaid. If notice is given by telegram, it shall be delivered at least twenty-four (24) hours prior to the special meeting and such telegram notice shall be deemed to have been delivered when the telegram is delivered to the telegraph company. Personal notice and notice by telephone shall be given at least twenty-four (24) hours prior to the special meeting and shall be deemed delivered upon receipt. Any Director may waive notice of any meeting. The attendance of a Director at any meeting shall constitute a waiver of notice of such meeting, except when a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

SECTION 6. QUORUM. A majority of the Board of Directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, provided that if less than a majority of the Directors are present at said meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

SECTION 7. MANNER OF ACTING. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 8. VACANCIES. Any vacancy occurring in the Board of Directors may be filled by the affirmative vote of a majority of the remaining Directors though less than a quorum of the Board of Directors. A Director elected to fill a vacancy shall serve until the next annual meeting of the stockholders.

SECTION 9. INFORMAL ACTION. Any action required or permitted to be taken of the Board of Directors or of a committee of the Board, may be taken without a meeting if a consent, in writing, setting forth action so taken shall be signed by all of the Directors, or all of the members of the committee, as the case may be. Members of the Board of Directors or any committee designated by the Board may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment whereby all persons participating in the meeting can hear or speak to each other at the same time. Participation in a meeting pursuant to this section shall constitute presence in person at the meeting.

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SECTION 10. NOMINATION OF DIRECTORS. Only persons who are nominated in accordance with the procedures set forth in Section 9 of Article II of these Bylaws shall be eligible for election as Directors of the Corporation, except as may be otherwise provided in the Restated Articles of Incorporation with respect to the right of holders of preferred stock of the Corporation to nominate and elect a specified number of Directors in certain circumstances.

#### **ARTICLE IV** **COMMITTEES OF THE BOARD**

SECTION 1. COMMITTEES. The Board of Directors shall have authority to establish such committees as it may consider necessary or convenient for the conduct of its business. All committees so established shall keep minutes of every meeting thereof and such minutes shall be submitted at the next regular meeting of the Board of Directors at which a quorum is present, and any action taken by the Board with respect thereto shall be entered in the minutes of the Board. Each committee so established shall elect a Chairman of the committee. On all committees where the Chairman of the Board is not appointed as a voting member, the Chairman of the Board shall be an ex officio, nonvoting member of that committee.

SECTION 2. THE EXECUTIVE COMMITTEE. The Board of Directors shall appoint and establish an Executive Committee composed of up to six (6) Directors who shall be appointed by the Board annually. The Executive Committee shall have and may exercise when the Board of Directors is not in session, all of the authority of the Board of Directors that may lawfully be delegated; provided, however, the Executive Committee shall not have the power to enter into any employment agreement with an officer of the Corporation, without the specific approval and ratification of the Board of Directors. A majority in membership of the Executive Committee shall constitute a quorum.

SECTION 3. THE AUDIT COMMITTEE. The Board of Directors shall appoint and establish an Audit Committee composed of up to five (5) Directors, none of whom shall be officers, who shall be appointed by the Board annually. The Audit Committee shall make an examination every twelve months into the affairs of the Corporation and report the results of such examination in writing to the Board of Directors at the next regular meeting thereafter. Such report shall state whether the Corporation is in sound condition and whether adequate internal audit controls and procedures are being maintained and shall include recommendations to the Board of Directors regarding such changes in the manner of doing business or conducting the affairs of the Corporation as shall be deemed advisable.

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SECTION 4. THE COMPENSATION COMMITTEE. The Board of Directors shall appoint and establish a Compensation Committee to be composed of five (5) Directors who shall be appointed by the Board annually. Each member of the Compensation Committee shall be a director who is not, during the one year prior to service or during such service, granted or awarded equity securities pursuant to any executive compensation plan of the Company. It shall be the duty of the Compensation Committee to administer the Company's Supplemental Benefit Plan[s], the Company's Incentive Compensation Plan[s], the Company's Stock

Option Plan[s], any executive compensation plan and any shareholder approved employee stock purchase or thrift plan, including without limitation, matters relating to the amendment, administration, interpretation, employee eligibility for and participation in, and termination of, the foregoing plans. It shall further be the duty of the Compensation Committee to review annually the salary paid to the President and Chief Executive Officer of the Company and to exercise any other authorities relating to compensation that the Board may lawfully delegate to it; provided, however, the Compensation Committee shall not have the power to enter into any employment agreement with an officer of the Company without the specific approval and ratification of the Board of Directors.

SECTION 5. THE RACING COMMITTEE. The Board of Directors may appoint and establish a Racing Committee to be composed of up to four (4) Directors who may be appointed by the Board annually. The Racing Committee shall be responsible for and shall have the authority to obligate the Corporation with respect to matters concerning the Corporation's contracts and relations with horsemen, jockeys and others providing services relating to the conduct of horse racing, including the authority to approve and cause the Corporation to enter into contracts with organizations representing horsemen and/or commit to provide benefits or services by the Corporation to horsemen and others.

SECTION 6. NOTICE OF COMMITTEE MEETINGS. Notice of all meetings by the committees established in this Article shall be given in accordance with the special meeting notice section, Article III, Section 5, of these Bylaws.

## ARTICLE V OFFICERS

SECTION 1. CLASSES. The officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers and agents as may be provided by the Board and elected in accordance with the provisions of this Article. Any of the offices may be combined in one person in accordance with the provisions of law. The Chairman of the Board of Directors shall be a member of the Board but none of the other officers is required to be a member of the Board.

SECTION 2. ELECTION AND TERM OF OFFICE. The officers of the Corporation shall be elected annually by the Board of Directors at the first meeting of the Board held after each annual meeting of stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Vacancies may be filled or new offices created and filled at any meeting of the Board of Directors. Each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed from office in the manner hereinafter provided.

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SECTION 3. REMOVAL. Any officer elected by the Board of Directors may be removed by the President whenever in his judgment the best interest of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed and shall be subject always to supervision and control of the Board of Directors. Election or appointment of an officer or agent shall not of itself create contractual rights.

SECTION 4. CHAIRMAN OF THE BOARD. The Chairman of the Board of Directors shall call to order and preside at all stockholders' meetings and at all meetings of the Board of Directors. He shall perform such other duties as he may be authorized to perform by the Board of Directors.

SECTION 5. PRESIDENT. The President shall be the chief executive officer of the Corporation and as such shall in general supervise and control all of the business operations and affairs of the Corporation. In the absence of the Chairman of the Board of Directors, or in the event of the death or incapacity of the Chairman, the President shall perform the duties of the Chairman until a successor Chairman is elected or until the incapacity of the Chairman terminates. The President shall have full power to employ and cause to be employed and to discharge and cause to be discharged all employees of the Corporation, subject always to supervision and control of the Board of Directors. When authorized so to do by the Board of Directors, he shall execute contracts and other documents for and in behalf of the Corporation. Unless otherwise ordered by the Board of Directors, the President shall have full power and authority on behalf of the Corporation to attend, act and vote at any meeting of stockholders of any corporation in which this Corporation may hold stock. He shall perform such other duties as may be specified in the Bylaws and such other duties as he may be authorized to perform by the Board of Directors.

SECTION 6. EXECUTIVE VICE PRESIDENT. In the case of the death of the President or in the event of his inability to act, the Executive Vice President designated by the Board shall perform the duties of the President and, when so acting, shall have all the powers of and be subject to all restrictions upon the President. The Executive Vice President shall perform such other duties as from time to time may be assigned by the President or by the Board of Directors.

SECTION 7. TREASURER. The Treasurer, subject to the control of the Board of Directors, and together with the President, shall have general supervision of the finances of the Corporation. He shall have care and custody of and be responsible for all moneys due and payable to the Corporation from any source whatsoever and deposit such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of these Bylaws. The Treasurer shall have the care of, and be responsible for all securities, evidences of value and corporate instruments of the Corporation, and shall supervise the officers and other persons authorized to bank, handle and disburse its funds, informing himself as to whether all deposits are or have been duly made and all expenditures duly authorized and evidenced by proper receipts and vouchers. He shall cause full and accurate books to be kept, showing the transactions of the Corporation, its accounts, assets, liabilities and financial condition, which shall at all times be open to the inspection of any Director, and he shall make due reports to the Board of Directors and the stockholders, and such statements and reports as are required of him by law. Subject to the Board of Directors, he shall have such other powers and duties as are incident to his office and not inconsistent with the Bylaws, or as may be assigned to him at any time by the Board.

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SECTION 8. SECRETARY. The Secretary shall attend all meetings of the Board of Directors, make a record of the business transacted and record same in one or more books kept for that purpose. The Secretary shall see that the Stock Transfer Agent of the Corporation keeps proper records of all transfers, cancellations and reissues of stock of the Corporation and shall keep a list of the stockholders of the Corporation in alphabetical order, showing the Post Office address and number of shares owned by each. The Secretary shall also keep and have custody of the seal of the Corporation and when so directed and authorized by the Board of Directors shall affix such seal to instruments requiring same. The Secretary shall be responsible for authenticating records of the Corporation and shall perform such other duties as may be specified in the Bylaws or as he may be authorized to perform by the Board of Directors.

SECTION 9. VICE PRESIDENTS. There may be additional Vice Presidents elected by the Board of Directors who shall have such responsibilities, powers and duties as from time to time may be assigned by the President or by the Board of Directors.

**ARTICLE VI**  
**CONTRACTS, LOANS, CHECKS AND DEPOSITS**

SECTION 1. CONTRACTS AND AGREEMENTS. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or agreement or execute and deliver any instruments in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 2. LOANS. No loans shall be contracted on behalf of the Corporation, and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances.

SECTION 3. CHECKS, DRAFTS, ORDERS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents, of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

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SECTION 4. DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as the Board of Directors may select.

**ARTICLE VII**  
**SHARES AND THEIR TRANSFER**

SECTION 1. CERTIFICATES FOR SHARES. The shares of the Corporation may be represented by certificates or may be uncertificated. Certificates representing shares of the Corporation shall be in such form as may be determined by the Board of Directors. Such certificates shall be in the name of the Corporation and signed by the President or Vice President and by the Secretary or an Assistant Secretary and may be sealed with the seal of the Corporation or a facsimile thereof. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may nevertheless be issued by the Corporation with the same effect as if the person were such officer at the date of issue. Where any such certificate is manually countersigned by a transfer agent or registrar (other than the Corporation itself or an employee of the Corporation), any of the other signatures on the certificate may be a facsimile. All certificates surrendered to the Corporation for transfer shall be canceled, and no new certificate shall be issued until the former certificate for all like number of shares shall have been surrendered and canceled, except that in the case of a lost, destroyed or mutilated certificate, a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. RECORDS. The Corporation shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its shareholders, as required by applicable law. Except as otherwise expressly required by law, the person in whose name shares stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

SECTION 3. TRANSFER OF SHARES. Transfer of shares of the Corporation shall be made only on the books of the Corporation by the registered shareholder thereof, or by the registered shareholder's attorney thereunto duly authorized by written power of attorney duly executed and filed with the Secretary of the Corporation or with a transfer agent appointed as provided in Section 4 of this Article, and on the surrender of any certificate or certificates for such shares properly endorsed.

SECTION 4. REGULATIONS. The Board of Directors may make such rules and regulations as it may deem expedient, not inconsistent with these Bylaws, concerning the issue, transfer and registration of shares of the Corporation. The Board of Directors may appoint or authorize any officer or officers to appoint one or more transfer agents and one or more registrars and may require all certificates for shares to bear the signature or signatures of any of them.

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**ARTICLE VIII**  
**FISCAL YEAR**

The fiscal year of the Corporation shall begin on the 1st day of January and end on the 31st day of December.

**ARTICLE I**  
**WAIVER OF NOTICE**

Whenever any notice is required to be given under the provisions of these Bylaws, or under the provisions of the Articles of Incorporation, or under the provisions of the corporation laws of the State of Kentucky, waiver thereof in writing, signed by the person, or persons, entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

**ARTICLE X**  
**INDEMNIFICATION OF OFFICERS AND DIRECTORS**

The Corporation shall indemnify and may advance expenses to all Directors, officers, employees, or agents of the Corporation, and their executors, administrators or heirs, who are, were or are threatened to be made a defendant or respondent to any threatened, pending or completed action, suit or proceedings (whether civil, criminal, administrative or investigative) by reason of the fact that he is or was a Director, officer, employee or agent of the Corporation, or while a Director, officer, employee or agent of the Corporation, is or was serving the Corporation or any other legal entity in any capacity at the request of the Corporation (hereafter a "Proceeding"), to the fullest extent that is expressly permitted or required by the statutes of the Commonwealth of Kentucky and all other applicable law.

In addition to the foregoing, the Corporation shall, by action of the Board of Directors, have the power to indemnify and to advance expenses to all Directors, officers, employees or agents of the Corporation who are, were or are threatened to be made a defendant or respondent to any Proceeding, in such amounts, on such terms and conditions, and based upon such standards of conduct as the Board of Directors may deem to be in the best interests of the Corporation.

**ARTICLE XI**  
**FIDELITY BONDS**

The Board of Directors shall have authority to require the execution of fidelity bonds by all or any of the officers, agents and employees of the Corporation in such amount as the Board may determine. The cost of any such bond shall be paid by the Corporation as an operating expense.

**ARTICLE XII**  
**AMENDMENT OF BYLAWS**

The Board of Directors may alter, amend or rescind these Bylaws, subject to the right of the stockholders to repeal or modify such actions.

CHURCHILL DOWNS INCORPORATED  
AMENDED AND RESTATED  
INCENTIVE COMPENSATION PLAN (1997)

ARTICLE 1

PURPOSE

The purpose of the CHURCHILL DOWNS INCORPORATED AMENDED AND RESTATED INCENTIVE COMPENSATION PLAN is to promote the interests of the Company and its stockholders by providing greater incentives to officers and other key management employees by rewarding them for services rendered with compensation in an amount which is directly related to the success of the Company as well as the performance of the operating units and the individual employees.

ARTICLE 2

DEFINITIONS

2.1 Definitions. The following words and phrases, when used herein, unless their context clearly indicates otherwise, shall have the following respective meanings:

- A. Beneficiary. A person or persons (natural or otherwise) designated by a Participant in accordance with the provisions of Article 8 to receive any benefits which shall be payable under this Plan.
- B. Board. The Board of Directors of Churchill Downs Incorporated.
- C. Budget. The annual operating budget approved by the Board for each year during the term of the Plan.
- D. CEO. The Chief Executive Officer of Churchill Downs Incorporated.
- E. Company. Churchill Downs Incorporated and its subsidiaries.
- F. Company Achievement Percentage Levels. The percentages established annually by the Committee to be used, as provided in Section 6.2, in computing a part of an Annual Incentive Compensation Award based upon achievement of a Company Performance Goal.
- G. Company Performance Goals. The goal defined in Section 6.1.A.
- H. Disability. A physical or mental condition arising after the Effective Date hereof which qualifies a Participant for disability benefits under the Social Security Act in effect on the date of disability.

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- I. Discretionary Achievement Percentage Levels. The percentages established annually by the Committee to be used, as provided in Section 6.5, in computing a part of an Annual Incentive Compensation Award, based upon achievement of a Discretionary Performance Goal.
  - J. Discretionary Performance Goals. The goals defined in Section 6.1.D.
  - K. Effective Date. January 1, 1997.
  - L. Incentive Compensation Award. The award as defined in Article 6. An award under the Churchill Downs Incorporated Incentive Compensation Plan (1997) during any year shall be an "Annual Incentive Compensation Award."
  - M. Participant. An employee of the Company who is selected for participation in the Plan in accordance with the provisions of Article 5. For purposes of Articles 7 and 8, the term Participant shall also include a former employee who is entitled to benefits under this Plan.
  - N. Participation Classification. The classification assigned to each Participant in accordance with the provisions of Article 5.
  - O. Participation Percentage. The percentages of participation in the Plan as defined in Article 6.
  - P. Performance Goals. The performance goals as defined in Article 6.
  - Q. Plan. The Churchill Downs Incorporated Incentive Compensation Plan (1997).
  - R. Plan Year. The twelve-month period commencing on January 1 of one calendar year and ending on December 31 of the same calendar year, which period is also the Company's fiscal year.
  - S. Profit Center. Each Churchill Downs Incorporated racing operation, Churchill Downs Incorporated Corporate Sales, Churchill Downs Management Company, and any other profit centers designated by the CEO.
  - T. Pre-tax Income. The annual consolidated income of the Company, before federal and state income taxes, after any allowance for payments made

or to be made under this Plan, and after inclusion of all extraordinary revenues and deduction of all extraordinary expenses, all as calculated in accordance with generally accepted accounting principles consistently applied and confirmed by the audit report of the Company's independent public accountants. The Compensation Committee shall have the discretion to exclude any extraordinary revenue or any extraordinary expense from the definition of "Pre-tax Income."

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U. Profit Center Achievement Percentage Levels. The percentages established annually by the Committee to be used, as provided in Section 6.3, in computing a part of an Annual Incentive Compensation Award, based upon achievement of a Profit Center Performance Goal.

V. Profit Center Performance Goals. The goals defined in Section 6.1.B.

W. Salary. The Participant's base annual salary as set by either the Compensation Committee of the Board or the CEO.

X. Service Center. The Finance, Development & Technology Service Center, the Legal Service Center, the Corporate Communications Service Center, and any other service center designated by the CEO.

Y. Service Center Achievement Percentage Levels. The percentages established annually by the Committee to be used, as provided in Section 6.4, in computing a part of an Annual Incentive Compensation Award based upon achievement of a Service Center Performance Goal.

Z. Service Center Performance Goals. The goals defined in Section 6.1.C.

AA. Term. This Plan shall continue, Plan Year to Plan Year, until amended or terminated by the Board of Directors upon recommendation of the Compensation Committee, or such earlier date as may be determined under Section 9.2.

2.2 Construction. The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender, unless the context clearly indicates to the contrary.

### ARTICLE 3

#### ADMINISTRATION

3.1 Committee. The Plan shall be administered by the Compensation Committee of the Board (hereinafter the "Committee").

3.2 Committee's Power and Authority. The Committee shall have full and complete authority and power, subject only to the direction of the Board, to administer the Plan in accordance with its terms and carry out the provisions of the Plan. The Committee shall interpret the Plan and shall determine all questions, factual, legal or otherwise, arising in the administration, interpretation and application of the Plan, including but not limited to questions of eligibility and the status and rights of Participants, Beneficiaries and other persons. The Committee shall have any and all power and authority (including discretion with respect to the exercise of such power and authority) which shall be necessary, properly advisable, desirable, or convenient to enable it to carry out its duties under the Plan. By way of illustration and not limitation, the Committee is empowered and authorized to make rules and regulations in respect to the Plan not

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inconsistent with the Plan; to determine, consistently therewith, all questions that may arise as to the eligibility, benefits, status and right of any person claiming benefits under the Plan; to determine whether a Participant was terminated for just cause; and subject to and consistent with, any applicable laws, to make factual determinations, to construe and interpret the Plan and correct any defect, supply any omissions or reconcile any inconsistencies in the Plan. Any such determination by the Committee shall presumptively be conclusive and binding on all persons. The regularly kept records of the Company shall be conclusive and binding upon all persons with respect to a Participant's date and length of employment, time and amount of salary and the manner of payment thereof, type and length of any absence from work and all other matters contained therein relating to employment. All rules and determinations of the Committee shall be uniformly and consistently applied to all persons in similar circumstances.

3.3 Committee's Annual Review. The Committee shall review the operation of the Plan to determine its effectiveness in promoting its operating results and the shareholders' investment; further, the Committee shall report annually to the Board on its findings and make such recommendations as the Committee deems appropriate.

### ARTICLE 4

#### EFFECTIVE DATE AND TERMINATION

The Plan shall be effective as of January 1, 1997. The Plan shall terminate on December 31, 2003, except with respect to the payment of any Incentive Compensation Awards which may become due and payable thereafter, or unless terminated earlier by action of the Board under Section 9.2.

ARTICLE 5

## ELIGIBILITY AND PARTICIPATION

5.1 Eligibility. All Company officers and other key management employees who are employed by the Company on the date of the adoption of this Plan and who are specifically designated by the Committee as Participants shall be Participants in the Plan as of January 1, 1997. In addition, any officers and other key management employees who are subsequently designated by the Committee as participants shall become Participants in the Plan on the date established by the Committee for such participation. Once an employee becomes a Participant, he will remain a Participant until the earliest of: [i] termination of this Plan; [ii] termination of his active service with the Company; or [iii] termination of his status as a Participant by decision of the Committee, provided, however, that a Participant will be terminated from participation in the Plan only at the beginning of a Plan Year.

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5.2 Classifications of Participants. The Committee shall, from time to time, establish Participation Classifications which will determine the Participants' Performance Goals. Simultaneous with the Committee's designation of an employee as a Participant, the Committee shall designate in which classifications of Participants the employee shall participate. The Committee may change the Class designation of a Participant as of the beginning of any Plan Year.

## ARTICLE 6

### ANNUAL INCENTIVE COMPENSATION AWARDS

6.1 Performance Goals. Annual Incentive Compensation Awards to each Participant shall be determined on the basis of the achievement of the following Performance Goals:

A. The Company achieves certain Pre-tax Income for the applicable year: the "Threshold Company Goal" (90% of the Pre-tax Income target set in the applicable Budget); the "Target Company Goal" (100% of the Pre-tax Income target set in the applicable Budget); and the Maximum Company Goal" (120% of the Pre-tax Income target set in the applicable Budget) (the "Company Performance Goal[s]"). The Committee shall establish annually the percentage of the Annual Incentive Compensation Award to each Participant which is awarded to each Participant based upon the Company Performance Goals (the "Company Performance Goals Percentage").

B. In the case of Classes to which Participants working in Profit Centers are assigned, the Profit Center achieves certain pre-tax net income levels for the applicable year: the "Threshold Profit Center Goal" (90% of the pre-tax net income set in the Profit Center's applicable Budget); the "Target Profit Center Goal" (100% of the pre-tax net income set in the Profit Center's applicable Budget); and the "Maximum Profit Center Goal" (120% of the pre-tax net income set in the Profit Center's applicable Budget) (the "Profit Center Performance Goal[s]"). The Committee shall establish annually the percentage of the Annual Incentive Compensation Award which is awarded to each Participant based upon the Profit Center Performance Goals (the "Profit Center Performance Goals Percentage").

C. In the case of Classes to which Participants working in Service Centers are assigned, such Service Center meets certain objective financial and other criteria established by the CEO and the Senior Vice President of that Service Center for the applicable year: the "Threshold Service Center Goal" (90% of the Service Center's established criteria); the "Target Service Center Goal" (100% of the Service Center's established criteria); and the "Maximum Service Center Goal" (120% of the Service Center's established criteria) (the "Service Center Performance Goal[s]"). Achievement of the Service Center Performance Goals shall be determined in the CEO's sole discretion. The Committee shall establish annually the percentage of the Annual Incentive Compensation Award which is awarded to each Participant based upon the Service Center Performance Goals (the "Service Center Performance Goals Percentage").

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D. The Participant achieves certain performance standards particular to his or her position in the Company for the applicable year: the "Threshold Discretionary Goal" (90% of the Participant's performance standards); the "Target Discretionary Goal" (100% of the Participant's performance standards); and the "Maximum Discretionary Goal" (120% of the Participant's performance standards) (the "Discretionary Performance Goal[s]"). Achievement of the Discretionary Performance Goals shall be determined in the sole discretion of the CEO. The Committee shall establish annually the percentage of the Annual Incentive Compensation Award which is awarded based upon the Discretionary Performance Goals (the "Discretionary Performance Goals Percentage").

6.2 Computation of Award Based Upon Company Performance Goals. For each Plan Year for which the Company achieves the "Threshold Company Goal", each Participant shall be awarded an Annual Incentive Compensation Award which shall be computed by multiplying: (i) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage, as established annually by the Committee for the Participant's Class; by (iii) the Company Performance Goals Percentage, as established annually by the Committee for the Participant's Class; by (iv) the applicable Company Achievement Percentage Level as established annually by the Committee.

6.3 Computation of Award based on Profit Center Performance Goals. For each Plan Year for which the Company achieves at least the Threshold Company Performance Goal and the Profit Center in which that Participant works achieves at least its Threshold Profit Center Performance Goal, each Participant of a Profit Center Class shall be awarded an Annual Incentive Compensation Award which shall be computed by multiplying: (i) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage, as established annually by the Committee for the Participant's class; by (iii) the Profit Center Performance Goals Percentage as established annually by the Committee for the Participant's Class; (iv) by the applicable Profit Center Achievement Percentage Level as established annually by the Committee.

6.4 Computation of Award based on Service Center Performance Goals. For each Plan Year for which the Company achieves at least the Threshold Company Performance Goal and the Service Center in which that Participant works achieves at least its Threshold Service Center Performance Goal, each Participant in a Service Center Class shall be awarded an Annual Incentive Compensation Award which shall be computed by multiplying: (i) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage, as established annually by the Committee for the Participant's Class; by (iii) the Service Center Performance Goals Percentage as established annually by the Committee for the Participant's Class; by (iv) the applicable Service Center Achievement Percentage Level as established annually by the Committee.

6.5 Computation of Award based on Discretionary Performance Goals. For each Plan Year for which the Company achieves at least the Threshold Company Performance Goal and that Participant achieves at least his/her Threshold Discretionary Performance Goal, a Participant may be awarded an Annual Incentive Compensation Award which shall be computed by multiplying: (i) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage as established annually by the Committee; by (iii) the Discretionary Performance Goals Percentage for the Participant's Class as established annually by the Committee; by (iv) the applicable Discretionary Achievement Percentage Level as established annually by the Committee. The CEO, in his/her sole discretion, shall determine whether a Participant has met Discretionary Performance Goals.

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6.6 Adjustments to Annual Incentive Compensation Award. An Annual Incentive Compensation Award shall be adjusted by any one or more of the following adjustments:

A. In the event a Participant shall, during a Plan Year, die, retire, go on a leave of absence with the Company's consent, terminate employment due to Disability, or be terminated without just cause, the Annual Incentive Compensation Award for that Participant for such Plan Year shall be reduced, pro rata, based on the number of days in such Plan Year during which he was not a Participant.

B. In the event that during a Plan Year a Participant shall be discharged for just cause or shall voluntarily resign for any reason other than Disability, the Annual Incentive Compensation Award for that Participant shall be reduced to zero, and no Annual Incentive Compensation Award shall be payable to that Participant for such Plan Year.

## ARTICLE 7

### PAYMENT OF BENEFITS

7.1 Method of Payments. As soon as the Committee has determined the amount of all of the Annual Incentive Compensation Awards at the end of a Plan Year, the Committee shall instruct the Company to pay each award in cash in one lump sum.

## ARTICLE 8

### DESIGNATION OF BENEFICIARIES

A Participant may file with the Committee a designation of a Beneficiary or Beneficiaries in writing, which designation may be changed or revoked by the Participant's sole action, provided that the change or revocation is filed with the Committee in writing. If a Participant dies, any benefit which the Participant is entitled to receive under the Plan shall be delivered to the Beneficiary or Beneficiaries so designated, or if no Beneficiary has been designated or survives the Participant, shall be delivered to the Executor or Administrator of the Participant's estate.

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## ARTICLE 9

### MISCELLANEOUS PROVISIONS

9.1 Other Plans. Any payment made under the provisions of this Plan shall be includable in or excludable from a Participant's compensation for purposes of any other qualified or nonqualified benefit plan in which the Participant may be eligible to participate by reference to the terms of such other plan.

9.2 Plan Amendment and Terminations. The Company, acting through the Committee or the Board, reserves the right to amend and/or to terminate the Plan for any reason and at any time. Any amendment or termination of this Plan shall not affect the right of any Participant or his Beneficiary to receive an Incentive Compensation Award after it has been earned.

9.3 Right to Transfer, Alienate and Attach. Except to the extent that a Participant may designate a Beneficiary under the provisions contained in Article 8, the right of any Participant or any beneficiary to any benefit or to any payment hereunder shall not be subject in any manner to attachment or other legal process for the debts of such Participant or Beneficiary; and any such benefit or payment shall not be subject to anticipation, alienation, sale, transfer, assignment or encumbrance, except to the extent that the right to such benefit is transferable by the Participant by will or the laws of descent and distribution.

9.4 Indemnification. No member of the Board or of the Committee and no officer or employee of the Company shall be liable to any person for any action taken in connection with the administration of this Plan unless attributable to his own fraud or willful misconduct; nor shall the Company be liable to any person for any such action unless attributable to fraud or willful misconduct on the part of a director, officer or employee of the Company.

9.5 Non-Guarantee of Employment. Neither the existence of this Plan nor any award or benefit granted pursuant to it shall create any right to continued employment of any Participant by the Company. No Participant shall, under any circumstances, have any interest whatsoever, vested or contingent, in any particular property or asset of the Company by virtue of any award, unpaid bonus or other accrued benefit under the Plan.

9.6 Source of Payment. No special or separate fund shall be established or other segregation of assets made with respect to any immediate or deferred payment under the Plan. All payment of awards shall be made from the general funds of the Company. To the extent that a Participant or his Beneficiary acquires a right to receive payments under this Plan, such right shall be no greater than that of any unsecured general creditor of the Company.

9.7 Withholding Taxes. The Company shall have the right to deduct from all payments made to the Participant, whether pursuant to this Plan or otherwise, amounts required by federal, state or local law to be withheld with respect to any payments made pursuant to this Plan.

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas H. Meeker, 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 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)) for the registrant and we 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. 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
  - c. 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 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: November 13, 2003

/s/ Thomas H. Meeker  
Thomas H. Meeker  
President and Chief Executive Officer



## CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Michael E. Miller, 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 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)) for the registrant and we 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. 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
  - c. 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 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: November 13, 2003

/s/ Michael E. Miller  
Michael E. Miller  
Executive Vice President and  
Chief 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 September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Thomas H. Meeker, as President and Chief Executive Officer of the Company, and Michael E. Miller, as Executive Vice President and Chief 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 result of operations of the Company.

/s/Thomas H. Meeker  
Thomas H. Meeker  
President and Chief Executive Officer  
November 13, 2003

/s/ Michael E. Miller  
Michael E. Miller  
Executive Vice President and Chief Financial Officer  
November 13, 2003

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.