

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended: June 30, 1996

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 61-0156015  
(State or other jurisdiction of (IRS Employer  
incorporation or organization) 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 X No \_\_\_\_\_

The number of shares outstanding of registrant's common stock at August 9, 1996  
was 3,725,955 shares.

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CHURCHILL DOWNS INCORPORATED

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CHURCHILL DOWNS INCORPORATED  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

ASSETS	JUNE 30, 1996	DECEMBER 31, 1995	JUNE 30, 1995
	-----	-----	-----
Current assets:			
Cash and cash equivalents	\$14,028,675	\$ 5,856,188	\$10,272,264
Accounts receivable	5,553,215	2,098,901	4,302,240
Other current assets	207,075	549,820	611,205
	-----	-----	-----
Total current assets	19,788,965	8,504,909	15,185,709
Other assets	4,046,354	4,632,044	4,965,548
Property, plant and equipment	98,852,730	97,451,463	95,471,966
Less accumulated depreciation	(35,128,935)	(33,101,934)	(32,027,423)
	-----	-----	-----
	63,723,795	64,349,529	63,444,543
	-----	-----	-----
	\$87,559,114	\$77,486,482	\$83,595,800
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable	\$ 70,097	\$ 70,097	\$ 444,154
Accounts payable	12,209,115	6,517,508	13,530,601
Accrued expenses	3,540,803	3,310,882	1,876,711
Dividends payable	--	1,892,302	--
Income taxes payable	6,539,508	1,049,508	5,459,008
Deferred revenue	1,200,753	6,098,541	1,028,579
	-----	-----	-----
Total current liabilities	23,560,276	18,938,838	22,339,053
Notes payable	2,950,079	6,351,079	4,198,059
Outstanding mutuel tickets (payable to Common-wealth of Kentucky after one year)	3,189,408	2,256,696	2,480,499
Deferred compensation	958,312	871,212	1,082,480
Deferred income taxes	2,415,500	2,415,500	2,248,000
Minority interest	218,390	--	163,800
Stockholders' equity:			
Preferred stock, no par value; authorized, 250,000 shares; issued, none			
Common stock, no par value; authorized, 10 Million shares, outstanding 3,725,955 shares, June 30, 1996 and 3,784,605 shares, December 31, 1995 and 3,784,605 shares, June 30, 1995	3,450,078	3,504,388	3,504,388
Retained earnings	51,018,421	43,486,460	48,053,562
Deferred compensation costs	(136,350)	(272,691)	(409,041)
Note receivable for common stock	(65,000)	(65,000)	(65,000)
	-----	-----	-----
	54,267,149	46,653,157	51,083,909
	-----	-----	-----
	\$87,559,114	\$77,486,482	\$83,595,800
	=====	=====	=====

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

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
for the six months ended June 30, 1996 and 1995  
(Unaudited)

	SIX MONTHS ENDED JUNE 30	
	1996	1995
Net revenues	\$66,490,002	\$57,947,743
Operating expenses	46,397,876	39,501,703
Gross profit	20,092,126	18,446,040
Selling, general and administrative expenses	3,897,874	3,663,323
Operating income	16,194,252	14,782,717
Other income and expense:		
Interest income	94,631	96,943
Interest expense	(147,035)	(356,732)
Miscellaneous, net	81,804	98,007
	29,400	(161,782)
Earnings before income taxes	16,223,652	14,620,935
Federal and state income taxes	(6,400,000)	(5,743,000)
Net earnings	\$ 9,823,652	\$ 8,877,935
Net earnings per share (based on weighted average shares outstanding of 3,768,632 and 3,785,180, respectively)	\$ 2.61	\$ 2.34

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

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS for the three  
months ended June 30, 1996 and 1995  
(Unaudited)

	THREE MONTHS ENDED JUNE 30	
	1996	1995
Net revenues	\$54,939,249	\$49,335,136
Operating expenses	33,198,583	29,555,966
	-----	-----
Gross profit	21,740,666	19,779,170
Selling, general and administrative expenses	2,103,082	2,133,579
Operating income	19,637,584	17,645,591
	-----	-----
Other income and expense:		
Interest income	50,628	66,967
Interest expense	( 50,837)	(202,138)
Miscellaneous, net	34,490	28,792
	-----	-----
	34,281	(106,379)
Earnings before income taxes	19,671,865	17,539,212
Federal and state income taxes	(7,775,000)	(6,889,000)
	-----	-----
Net earnings	\$11,896,865	\$10,650,212
	=====	=====
Net earnings per share (based on weighted average shares outstanding of 3,751,183 and 3,785,525, respectively)	\$ 3.17 =====	\$ 2.81 =====

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

CHURCHILL DOWNS INCORPORATED  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the six month period ended June 30,1996

	Common Stock	Retained Earnings	Note Receivable for Common Stock	Deferred Compensation Costs	Total
Balances December 31, 1995	\$3,504,388	\$43,486,460	\$(65,000)	\$ (272,691)	\$46,653,157
Net earnings		9,823,652			9,823,652
Deferred Compensation Amortization				136,341	136,341
Repurchase of common stock	(54,310)	(2,291,691)			(2,346,001)
Balances June 30, 1996	\$3,450,078 =====	\$51,018,421 =====	\$(65,000) =====	\$(136,350) =====	\$54,267,149 =====

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

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
for the six months ended June 30, 1996 and 1995  
(Unaudited)

	SIX MONTHS ENDED JUNE 30 1996	1995
Cash flows from operating activities:		
Net earnings	\$ 9,823,652	\$ 8,877,935
Adjustments to reconcile net earning to net cash provided by operating activities:		
Depreciation and amortization	2,294,718	2,225,496
Increase (decrease) in cash resulting from changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(3,454,314)	(2,025,022)
Other current assets	342,745	130,355
Income taxes payable	5,490,000	5,459,008
Deferred revenue	(4,897,788)	(5,113,532)
Accounts payable and accrued expenses	5,185,377	8,492,251
Minority interest	218,390	--
Other	2,210,277	1,293,684
Net cash provided by operating activities	17,213,057	19,340,175
Cash flows from investing activities:		
Additions to property, plant and equipment, net	(1,401,267)	(5,934,265)
Net cash used in investing activities	(1,401,267)	(5,934,265)
Cash flows from financing activities:		
Decrease in bank note payable, net	(3,401,000)	(3,763,020)
Dividend paid	(1,892,302)	(1,891,659)
Common stock repurchased	(2,346,001)	--
Net cash used in financing activities	(7,639,303)	(5,654,679)
Net increase in cash and cash equivalents	8,172,487	7,751,231
Cash and cash equivalents, beginning of period	5,856,188	2,521,033
Cash and cash equivalents, end of period	\$14,028,675	\$10,272,264
	=====	=====
Supplemental Disclosures of cash flow information: Cash paid during the period for:		
Interest	\$219,601	\$ 301,451
Income taxes	\$710,000	\$ 240,000

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

CHURCHILL DOWNS INCORPORATED

CONDENSED NOTES TO FINANCIAL STATEMENTS  
for the six months ended June 30, 1996 and 1995  
(Unaudited)

1. Because of the seasonal nature of the Company's business, revenues and operating results for any interim quarter are not indicative of the revenues and operating results for the year and are not necessarily comparable with results for the corresponding period of the previous year. The Company normally earns a substantial portion of its net income in the second quarter of each year during which the Kentucky Derby is run. The Kentucky Derby is run on the first Saturday in May.

During the six months ended June 30, 1996 the Company conducted simulcast receiving wagering for 661 location days. The Company operated simulcast wagering at its Sports Spectrum site in Louisville, Kentucky for 84 days during the six month period, compared to 88 days in 1995. Through its subsidiary, Hoosier Park L.P., the Company conducted simulcast wagering at its racetrack in Anderson, Indiana and at three simulcast wagering facilities located in Merrillville, Ft. Wayne and Indianapolis, Indiana for a total of 577 days compared to 332 days in 1995 when only three facilities were operating.

2. The accompanying 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 generally accepted accounting principles or those normally made in the Company's annual report on Form 10-K. The year end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. 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, 1995 for further information. The accompanying financial statements have been prepared in accordance with the registrant's customary accounting practices and have not been audited. In the opinion of management, all adjustments necessary for a fair presentation of this information have been made and all such adjustments are of a normal recurring nature.

3. On January 26, 1994 the Company through its wholly owned subsidiary Churchill Downs Management Company ("CDMC") purchased Anderson Park, Inc. ("API") for approximately \$1,950,000. API owned an Indiana Standardbred racing license and was in the process of constructing a racing facility in Anderson, Indiana. Subsequently, the facility was completed and, contemporaneously with the commencement of operations on September 1, 1994 the net assets of API were contributed to a newly formed partnership, Hoosier Park, L.P. ("HPLP") in return for an 87% general partnership interest.



CHURCHILL DOWNS INCORPORATED

CONDENSED NOTES TO FINANCIAL STATEMENTS  
for the six months ended June 30, 1996 and 1995 (continued)  
(Unaudited)

In December 1995, the Company entered into a Partnership Interest Purchase Agreement with Conseco HPLP, L.L.C. ("Conseco") for the sale of 10% of the Company's partnership interest in HPLP to Conseco. This sale was closed on May 31, 1996. The purchase price for the 10% partnership interest was \$218,390 and the transaction also included a payment of \$2,603,514 for the acquisition of a 10% interest in the debt owed by HPLP to CDMC at face value of debt at the date of the closing. Conseco and Pegasus Group, Inc. ("Pegasus") are limited partners of HPLP and Anderson continues to be the sole general partner of HPLP. This sale is not anticipated to have any material effect on operations in 1996.

From May 31, 1996 through December 31, 1998, Conseco has an option to purchase from API an additional 47% partnership interest in HPLP. The purchase price of the additional partnership interest will be \$22,156,000 of which approximately \$6,222,000 will be allocated to the purchase of the partnership interest and approximately \$15,934,000 will be allocated to the acquisition of debt owed by HPLP to CDMC. This purchase is subject to the approval of the Indiana Horse Racing Commission. Following this purchase, Conseco will be the sole general partner of HPLP, and API and Pegasus, will be limited partners of HPLP with partnership interest of 30% and 13% respectively. CDMC will continue to have a long-term management agreement with HPLP pursuant to which CDMC has operational control of the day-to-day affairs of Hoosier Park and its related simulcast operations.

4. During the quarter ended June 30, 1996, the Company acquired 58,650 shares of its common stock at a total cost of \$2,346,001. Quarterly earnings per share amounts do not add to year-to-date earnings per share for 1996 because of this change in the number of outstanding shares.

5. The Company has an unsecured \$20,000,000 bank line of credit with various options for the interest rate, none of which are greater than the bank's prime rate. Borrowings are payable on January 31, 1997. There were no borrowings outstanding at June 30, 1996 and \$3.0 million in borrowings were outstanding at June 30, 1995.

6. On January 22, 1992, the Company acquired certain assets of Louisville Downs, Incorporated for \$5,000,000. In conjunction with this purchase, the Company withheld \$1,000,000 from the amount due to the sellers to offset certain costs related to the remediation of environmental contamination associated with underground storage tanks at the site. All of the \$1,000,000 hold back has been utilized as of December 31, 1995.

It is not anticipated that the Company will have any liability as a result of compliance with environmental laws with respect to the property. Compliance with environmental laws has not otherwise affected development and operation of the property and the Company is not otherwise subject to any material compliance costs in connection with federal or state environmental laws.

7. Certain balance sheet and statement of operations items have been reclassified in the prior year to conform to current period presentation.

CHURCHILL DOWNS INCORPORATED

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

RESULTS OF OPERATIONS

This discussion and analysis contains both historical and forward looking information. The forward looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward looking statements may be significantly impacted by certain risks and uncertainties described herein, and in the Company's annual report on Form 10-K for the year ended December 31, 1995.

For many years, the Company has conducted live Spring and Fall race meetings for Thoroughbred horses in Kentucky. In 1988, the Company began to participate in intertrack simulcasting as a host track for all of its live races except those run on Kentucky Derby Day. In 1989, the Company commenced operations as a receiving track for intertrack simulcasting. During November 1991, the Company began interstate simulcasting for all of the live races with the receiving locations participating in the Company's mutuel pool. The Kentucky Derby and Kentucky Oaks, which are run on the first weekend in May of each year, continue to be the Company's outstanding attractions. In 1995, for the first time, Churchill Downs offered the simulcast of its races on Kentucky Derby Day to racetracks within Kentucky. In 1996, Derby weekend accounted for approximately 30% of total on-track pari-mutuel wagering and 35% of total on-track attendance, for the 1996 Spring Meet. In July 1994, the Company began to participate in whole card simulcasting, whereby the Company began importing whole race cards or programs from host tracks located outside the state for pari-mutuel wagering purposes. Whole card simulcasting has created a major new wagering opportunity for patrons of the Company in both Kentucky and Indiana.

Churchill Downs, through its subsidiary, Hoosier Park, L.P., is majority owner and operator of Indiana's only pari-mutuel racetrack, Hoosier Park at Anderson. Start-up costs incurred in Indiana during 1995 included improvements to Hoosier Park in anticipation of the track's inaugural Thoroughbred meet. In addition, Hoosier Park conducted two Harness race meets, as well as simulcast wagering, during its first 16 months of operation. In 1995, the Company opened off-track wagering facilities in Merrillville, Fort Wayne and downtown Indianapolis, Indiana. The license for the Jeffersonville, Indiana facility was surrendered in July 1995 because ownership of the tentative site was in question and resolution was not expected in the near future. The Company is continuing to evaluate sites for the location of a fourth satellite wagering facility.

CHURCHILL DOWNS INCORPORATED

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

The Company's principal sources of income are commissions from on-track pari-mutuel wagers, commissions from intertrack and fees from interstate simulcast wagers, admissions and seating, concession commissions (primarily for the sale of food and beverages), and license, rights, broadcast and sponsorship fees. The Company's primary source of income is pari-mutuel wagering. The Company retains the following amounts on specific revenue streams as a percentage of handle:

	KENTUCKY	INDIANA
On-track pari-mutuel wagers	14%	18%
Intertrack host	8%	--
Interstate/simulcast host	3%	3%
Intertrack/simulcast receiving	7%	18%

In Kentucky, licenses to conduct Thoroughbred race meetings and to participate in simulcasting are approved annually by the Kentucky Racing Commission based upon applications submitted by the racetracks in Kentucky, including the Company. Based on gross figures for on-track pari-mutuel wagering and attendance, the Company is the leading Thoroughbred racetrack in Kentucky. In Kentucky, the Company has been granted a license to conduct live racing during the period from April 27, 1996, through June 30, 1996, and from October 27, 1996, through November 30, 1996, for a total of 78 racing days.

In Indiana, licenses to conduct live Standardbred and Thoroughbred race meetings and to participate in simulcasting are approved annually by the Indiana Horse Racing Commission based upon applications submitted by the Company. Currently, the Company is the only facility in Indiana licensed to conduct live Standardbred or Thoroughbred race meetings and to participate in simulcasting. In Indiana, the Company has received a license to conduct live racing for a total of 133 racing days, including 80 days of Standardbred racing from April 25, 1996 through September 2, 1996, and 53 days of Thoroughbred racing from September 20, 1996 through November 30, 1996.

The Company operated two live racing facilities and conducted simulcast wagering at four locations during the six month period ended June 30, 1996. The chart below summarizes the results of these operations.

CHURCHILL DOWNS INCORPORATED

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

	KENTUCKY			INDIANA		
	Six Months	Six Months		Six Months	Six Months	
	Ended June 30,	Ended June 30,	Increase	Ended June 30,	Ended June 30,	Increase
	1996	1995	(Decrease)	1996	1995	(Decrease)

ON-TRACK

Number of Race Days	48	46	2	43	66	(23)
Attendance	685,228	686,189	0%	48,974	90,182	(46)%
Handle	\$95,077,056	\$88,436,906	8%	\$ 5,154,518	\$8,798,255	(41)%
Avg. daily attendance	14,276	14,917	(4)%	1,139	1,366	(17)%
Avg. daily handle	\$1,980,772	\$1,922,541	3%	\$ 119,873	\$ 133,307	(10)%
Per capita handle	\$138.75	\$128.88	8%	\$105.25	\$ 97.56	8%

INTERTRACK/SIMULCAST-HOST (SENDING)

Number of Race Days	48	46	2	43	56	(13)
Handle	\$245,018,693	\$137,265,922	78%	\$1,116,593	\$1,642,722	(32)%
Avg. daily handle	\$5,104,556	\$2,984,042	71%	\$ 25,967	\$ 29,334	(11)%

INTERTRACK/SIMULCAST-RECEIVING\*

Number of Race Days	84	88	(4)	577	332	245
Attendance	195,552	219,065	(11)%	**	157,735	**
Handle	\$52,340,744	\$50,947,048	3%	\$69,946,803	\$44,147,538	58%
Avg. daily attendance	2,328	2,489	(6)%	**	475	**
Avg. daily handle	\$623,104	\$578,944	8%	\$121,225	\$132,975	(9)%
Per capita handle	\$267.66	\$232.57	15%	**	\$279.88	**

\* The Company's Indiana operations include three separate simulcast wagering facilities.

\*\* Attendance figures are not kept for the off-track wagering facilities in Indianapolis, Fort Wayne or for simulcast-receiving at Hoosier Park.

CHURCHILL DOWNS INCORPORATED

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

With the advent of whole card simulcasting, the Company conducts interstate simulcasting virtually year-round on multiple racing programs each day from around the nation. The number of receiving days is increasing because of additional off-track wagering facilities being opened in Indiana. During 1995, simulcast wagering was being conducted at Hoosier Park in Anderson, Indiana and beginning January 25, 1995 at Merrillville, Indiana. Two additional simulcast facilities were opened during 1995, one in Ft. Wayne, Indiana on April 25, 1995, and the other in Indianapolis, Indiana in October 25, 1995. Simulcast wagering was conducted at all four facilities throughout the first half of 1996. For 1996, the Company has been granted a license to operate simulcast receiving locations in Kentucky and Indiana for any and all possible dates from January 1 through December 31 and intends to receive simulcasting on all possible days. An increase in the number of days is expected to enhance operating results. Hoosier Park may ultimately be supported by a fourth whole card simulcasting facility.

Because the business of the Company is seasonal, the number of persons employed will vary throughout the year. Approximately 600 individuals are employed on a permanent year-round basis. During the live race meetings, as many as 2,600 persons are employed.

By the end of the second quarter of 1997, as many as five Indiana riverboats may be operating along the Ohio River, with one of the nation's largest complexes to be located 10 miles from Louisville in Harrison County, Indiana. Studies project that direct competition with these boats could result in as much as a 30% decline in on-track wagering at Churchill Downs and a 20% decline in Sports Spectrum business. In response, the Company's Board of Directors passed a resolution at its June 13 meeting instructing the Company's management to aggressively pursue alternative forms of gaming at its racetrack facilities in Louisville. The integration of alternative gaming products at the racetrack is one of four core business strategies developed by the Company to grow its live racing program. Management has been positioning the Company to compete in this changing environment for the past several years by strengthening its flagship operations, increasing its share of the interstate simulcast market, and geographically expanding its racing operations into Indiana. The Company currently is working to build a consensus within Kentucky's horse industry for a plan to offer alternative gaming products exclusively at state racetracks.

On May 7, 1996 the Company purchased 58,650 shares of common stock at a total cost of \$2,346,001. The purchase had a positive effect on earnings per share, adding \$.02 to earnings per share for the six month period ended June 30, 1996. The Company expects 1996 total earnings per share to benefit by approximately \$.03 as a result of the purchase.

CHURCHILL DOWNS INCORPORATED

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

COMPARISON OF SIX MONTHS ENDED JUNE 30, 1996 TO 1995

Net revenue during the six months ended June 30, 1996 increased \$8,542,259. Kentucky operations contributed 52%, or \$4,461,692 to the total increase, with Simulcast-Host showing the largest increase at \$2,389,289. Simulcast-Host represents revenues generated by transmitting the Company's live races at Churchill Downs outside the state of Kentucky to outlets across the nation. The number of outlets increased from 226 in 1995 to 401 in 1996. On-track wagering on the Company's live races at Churchill Downs was 3.19% below 1995. This decrease was offset by an increase in wagering on whole card simulcast races during 41 days of the live meet.

During the first half of 1996, Indiana operations contributed \$4,080,567 or 48% to the revenue increase. In addition to an increase in Simulcast-Host of \$2,262,521, Simulcast-Receiving increased \$1,865,149 primarily as a result of the increase in the number of simulcast outlets in 1996. On-track revenue decreased at Hoosier Park by \$703,994 when compared to 1995 primarily due to the live racing meet starting three weeks later and having one less race day per week this year, resulting in 23 fewer race days in 1996.

Concession commission and program revenue both increased due largely to the Indiana operations. Indiana had four facilities operating in 1996 compared to only three in 1995. The increase in other revenue is due to \$527,679 of Indiana riverboat admissions tax that is payable to licensed racetracks facilities in Indiana per Indiana state law.

CHURCHILL DOWNS INCORPORATED

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

NET REVENUE SUMMARY

	Six Months		Six Months		1996 VS. 1995	
	Ended June 30, 1996	% To Total Revenue	Ended June 30, 1995	% To Total Revenue	\$ Change	% Change
Pari-Mutuel Revenue:						
On-track	\$13,787,088	21%	\$14,244,632	24%	\$ (457,544)	-3%
Intertrack-Host	4,939,959	7	4,103,517	7	836,442	20
Simulcast-Receiving	14,684,372	22	12,458,047	21	2,226,325	18
Simulcast Host	10,801,151	16	6,149,341	11	4,651,810	76
	-----		-----		-----	-----
	44,212,570	66	36,955,537	63	7,257,033	20
Admission & Seat Revenue	10,322,496	15	10,363,623	18	(41,127)	0
License, Rights, Broadcast & Sponsorship Fees	5,357,850	8	5,326,281	9	31,569	1
Concession Commission	1,798,167	3	1,720,339	3	77,828	5
Program Revenue	1,865,790	3	1,574,783	3	291,007	18
Derby Expansion Area	1,128,270	2	1,015,940	2	112,330	11
Other	1,804,859	3	991,240	2	813,619	82
	-----		-----		-----	-----
	\$66,490,002	100%	\$57,947,743	100%	\$ 8,542,259	15%
	=====		=====		=====	=====

CHURCHILL DOWNS INCORPORATED

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

Operating expenses increased \$6,896,173 during the six month period. Gross margin decreased from 31.8% to 30.2% through June 30, 1996. This decrease in gross margin results primarily from a higher percentage of revenue in 1996 coming from lower margin simulcast products. Specifically, due to simulcasting at three satellite wagering facilities and at Hoosier Park in Indiana in 1996, coupled with the increase in whole card simulcasts at the Sports Spectrum in Louisville and during the Churchill Downs live meet. Changes in specific expense categories follow.

Purse expense increased \$2,933,941 due largely to the increase in Simulcast-Host handle in both Kentucky and Indiana. In addition, Indiana Simulcast-Receiving purse expense increased \$611,789. In Kentucky and Indiana purse expense varies directly with pari-mutuel revenues and is calculated as a percentage of the related revenue and may change from year to year pursuant to contract or statute.

The increase in Wages and Contract Labor of \$480,482 can be attributed to an increase in number of mutuel clerks on Oaks and Derby days in Kentucky along with the opening of the third Indiana satellite wagering facility. The \$708,381 increase in Advertising, Marketing and Publicity is due largely to the marketing of the wagering facilities in Indiana. Approximately \$300,000 was spent as part of an intensive marketing campaign in Indiana with approximately \$150,000 being spent in each of the Fort Wayne and Hoosier Park (Anderson, Indiana) areas. Response to the marketing efforts was positive and the goal is to maintain increased handle as marketing support is reduced. Additionally, new marketing programs such as the Twin Spires Club and Winners Circle Sponsorship, along with expenses incurred in conjunction with ESPN's Derby Week coverage, also caused increases during the six month period.

Racing Relations and Services increased \$195,670 due largely to the end-of-meet state license tax accrual that, for the past three years, has been accrued in the third quarter at the end of the spring race meet. In 1996, the spring race meet ended in the second quarter on June 30, 1996.

Audio, Video and Signal Distribution expense increased \$88,988 due primarily to the additional facility in Indiana. Totalisator and Simulcast Host Fee expenses increased for the six month period \$162,962 and \$1,109,396, respectively. These expenses are related to the operation of the off-track wagering facilities in both Kentucky and Indiana. Totalisator expense is generated based on total wagers taken at the facilities. Simulcast host fees are paid to the track whose live races are being simulcast at the facilities. As total wagers increase, these expenses, along with purses, increase accordingly. In Kentucky simulcast host fees increased relative to combined handle as a result of a shift in wagering from in-state to out-of-state racing cards. This was primarily the result of winter weather conditions in Kentucky which required racing in the state to be canceled several times throughout the first quarter. This shift translates to slimmer margins because no simulcast fees are paid on in-state racing, and in-state purses are calculated at a slightly lower rate.



CHURCHILL DOWNS INCORPORATED

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

Program expenses increased \$408,222 for the quarter. This is primarily attributed to higher paper cost in Kentucky, which resulted in an increase of \$205,090. The increases in Indiana are attributable to the addition of the third Indiana satellite wagering facility and a higher than expected scrap rate in Indiana.

Maintenance and Utilities increased \$113,239 and \$306,566 respectively. General repairs at the four Indiana facilities account for the increase in maintenance, which includes expenses for winter storm damage and supplies. Utilities increased overall due to the unseasonably cold winter temperatures and the additional facility in Indiana.

Increases of \$110,474 in Insurance, Taxes and License Fees are derived from a \$19,357 decrease in Kentucky operations attributed to savings generated by a change in insurance carriers and a \$129,831 increase in Indiana due to the insurance requirements for the additional OTB facility. Facility rent in 1996 is attributable to the Indianapolis simulcast facility.

CHURCHILL DOWNS INCORPORATED

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

OPERATING EXPENSE SUMMARY

	Six Months Ended June 30, 1996	% To Total Expense	Six Months Ended June 30, 1995	% To Total Expense	1996 VS. \$ Change	1995 % Change
	-----	-----	-----	-----	-----	-----
Purses:						
On-track	\$7,638,311	16%	\$7,758,132	20%	\$(119,821)	-2%
Intertrack-Host	2,362,120	5	1,997,672	5	364,448	18
Simulcast- Receiving	4,829,253	10	4,108,994	10	720,259	18
Simulcast-Host	4,777,029	10	2,807,974	7	1,969,055	70
	-----	-----	-----	-----	-----	-----
	\$19,606,713	41	\$16,672,772	42	\$2,933,941	18
Wages and Contract Labor	8,802,118	19	8,321,636	21	480,482	6
Advertising, Marketing & Publicity	2,134,306	5	1,425,925	4	708,381	50
Racing Relations & Services	782,689	2	587,019	1	195,670	33
Totalisator Expense	662,785	1	499,823	1	162,962	33
Simulcast Host Fee	3,533,463	8	2,424,067	6	1,109,396	46
Audio/Video & Signal Distribution Expense	1,293,837	3	1,204,849	3	88,988	7
Program Expense	1,461,967	3	1,053,745	3	408,222	39
Depreciation & Amortization	2,291,564	5	2,225,496	6	66,068	3
Insurance, Taxes & License Fees	1,373,504	3	1,263,030	3	110,474	9
Maintenance	984,577	2	871,338	2	113,239	13
Utilities	1,264,525	3	957,959	2	306,566	32
Derby Expansion Area	415,915	1	402,713	1	13,202	3
Facility/Land Rent	331,289	1	157,493	1	173,796	100
Other meeting expense	1,458,624	3	1,433,838	4	24,786	2
	-----	-----	-----	-----	-----	-----
	\$46,397,876	100%	\$39,501,703	100%	\$ 6,896,173	17%
	=====	=====	=====	=====	=====	=====

CHURCHILL DOWNS INCORPORATED

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

Selling, general and administrative expenses increased \$234,551 during the six month period. This is primarily due to an increase in Salaries and Wages in Indiana relating to the additional simulcast wagering facility.

Interest expense was down \$209,697 as positive cash flow from operations has allowed the Company to continue paying down its line of credit. As of May 7, 1996 the outstanding balance on the line of credit has been completely retired.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 1996 TO THREE MONTHS ENDED JUNE 30, 1995

Net revenue increased \$5.6 million due primarily to an increase in Simulcast-Host, with the Company's live races being transmitted to a record number of outlets across the nation. Additionally, Simulcast-Receiving increased due to an extra simulcasting outlet being open in Indiana during 1996.

Operating expenses increased by \$3.6 million primarily due to the increase in Purse Expense which accompanies an increase in pari-mutuel revenue. Selling, General, and Administrative Expenses remained relatively flat, decreasing \$30,497 during the quarter.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 1996 TO THREE MONTHS ENDED MARCH 31, 1996

Net revenues increased \$43.4 million primarily due to \$49.2 million in live racing revenue at Churchill Downs during the second quarter. Churchill Downs' second quarter included 48 live racing days versus no live racing during the three months ended March 31, 1996. Operating expenses increased \$20.0 million also due to the live racing days. These increases were offset somewhat by 50 fewer intertrack receiving days at the Sports Spectrum during the quarter.

Selling, general and administrative costs for the second quarter of 1996 were \$2.1 million, up from \$1.8 million in the quarter ended March 31, 1996. This increase is primarily due to costs related to the live race meets at Churchill Downs and Hoosier Park in the second quarter.

CHURCHILL DOWNS INCORPORATED

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

SIGNIFICANT CHANGES IN THE BALANCE SHEET DECEMBER 31, 1995 TO JUNE 30, 1996

The cash balances at June 30, 1996 were \$8.2 million higher than December 31, 1995 due to the cash generated during 48 live race days at Churchill Downs, principally Kentucky Derby and Oaks weekend, and 43 live race days at Hoosier Park. Cash balances during May and June are historically at the highest levels of the year.

Accounts receivable at June 30, 1996 were \$3.5 million higher than December 31, 1995 due primarily to interstate and intrastate simulcasting settlements which were received in July and August, 1996.

Racing plant & equipment increased by \$1.4 million as a result of routine capital spending throughout the Company. There were no major capital projects during the six month period.

Accounts payable at June 30, 1996 were \$5.6 million higher than at December 31, 1995 mainly due to horsemen's balances for the live race meeting at Churchill Downs. Such balances for the Fall 1995 race meeting had been paid by December 31, 1995.

Deferred revenue was lower at June 30, due to the significant amount of admission and seat revenue that was received in advance at December 31 and recognized as income in May 1996 for the Kentucky Derby and Oaks.

Notes payable were \$3.4 million lower at June 30, 1996 as positive cash flow has allowed the Company to eliminate its outstanding amount of bank debt. However, Hoosier Park recognized \$2.9 million in debt due to the Conseco purchase of 10% of the partnership.

Dividends payable decreased by \$1.9 million due to the payment of the dividend in January 1996.

Income taxes payable at June 30, 1996 relate to the estimated expense due for the six month period. Due to the seasonality of the business related to the Spring race meeting, the second quarter of the year is the highest in earnings and related taxes.

SIGNIFICANT CHANGES IN THE BALANCE SHEET JUNE 30, 1995 TO JUNE 30, 1996

Cash balances at June 30, 1996 are \$3.7 million above June 30, 1995 principally due to payments in 1995 for construction of the wagering facilities in northern and central Indiana.

Accounts receivable at June 30, 1996 were up due to interstate simulcasting and the increased number of outlets for the Churchill Downs spring race meeting.

CHURCHILL DOWNS INCORPORATED

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

Property, plant & equipment increased during the year by \$3.4 million due to the addition of the third simulcasting facility in Indiana and improvements which allowed Thoroughbred racing at Hoosier Park in September and October 1995, as well as routine capital spending throughout the Company.

Accounts payable decreased by \$1.4 million primarily due to the amount payable related to the Hoosier Park construction in 1995.

LIQUIDITY AND CAPITAL RESOURCES

Working capital for the six months ended June 30, 1996 and June 30, 1995 is as follows:

	June 30	
	----- 1996	1995 -----
Working capital deficiency	\$( 3,771,311)	\$(7,153,344)
Working capital ratio	.84 to 1	.68 to 1

The working capital deficiency is primarily a result of the nature and seasonality of the Company's business. Cash flows provided by operations were \$16.8 million for the six months ended June 30, 1996; \$16.5 million for the twelve months ended December 31, 1995; and \$19.3 million for the six months ended June 30, 1995. Management believes cash flows from operations during 1996 and funds available under the Company's unsecured line of credit will be sufficient to fund dividend payments (historically about \$1.9 million) and additions and improvements to the racing plant and equipment which are expected to be approximately \$3.0 million. Included in this figure is the expansion of the general office at Churchill Downs.

The Company has a \$20,000,000 unsecured line-of-credit available with \$20 million available at June 30, 1996 to meet working capital and other short-term requirements. Management believes that the Company has the ability to obtain additional long-term financing should the need arise.

CHURCHILL DOWNS INCORPORATED

PART II. OTHER INFORMATION

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

The registrant's 1996 Annual Meeting of Shareholders was held on June 13, 1996. Proxies were solicited by the registrant's board of directors pursuant to Regulation 14 under the Securities Exchange Act of 1934. There was no solicitation in opposition to the board's nominees as listed in the proxy statement, and all nominees were elected by vote of the shareholders. Voting results for each nominee were as follows:

	VOTES FOR	VOTES WITHHELD
CLASS III DIRECTORS:		
Charles W. Bidwill, Jr.	2,942,120	5,516
Thomas H. Meeker	2,942,335	5,301
Carl F. Pollard	2,942,550	5,086
Darrell R. Wells	2,941,570	6,066

A proposal (Proposal No. 2) to approve the Churchill Downs Incorporated 1995 Employee Stock Purchase Plan was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 2,720,006 shares were voted in favor of the proposal; 198,973 were voted against; 17,683 abstained; and 10,974 were not voted by beneficial holders.

A proposal (Proposal No. 3) to approve the minutes of the 1995 Annual Meeting of Shareholders was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 2,818,631 shares were voted in favor of the proposal; 121,521 were voted against; and 7,484 abstained.

The total number of shares of common stock outstanding as of April 18, 1995, the record date of the Annual Meeting of Shareholders, was 3,784,605.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K.

- A. See exhibit index
- B. During the quarter ending June 30, 1996, no Form 8-K's were filed by the Company.

SIGNATURES

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

August 14, 1996

/S/THOMAS H. MEEKER

-----  
Thomas H. Meeker  
President

August 14, 1996

/S/VICKI L. BAUMGARDNER

-----  
Vicki L. Baumgardner, Treasurer  
( Principal Financial and  
Accounting Officer)

EXHIBIT INDEX

NUMBERS	DESCRIPTION	BY REFERENCE TO
(10)(l)	Second Amended Secured Promissory Note Dated November 1, 1994, in the original principal amount of \$28.7 million made by Hoosier Park, L.P. to Churchill Downs Management Company	Page 25
(10)(m)	Participation Agreement between Churchill Downs Management Company and Conseco HPLP, L.L.C., dated May 31, 1996	Page 30



SECOND AMENDED SECURED PROMISSORY NOTE

\$28,700,000

Louisville, Kentucky  
November 1, 1994

WHEREAS, HOOSIER PARK, L.P. ("Borrower") is indebted to CHURCHILL DOWNS MANAGEMENT COMPANY ("Lender") under the following promissory notes: (I) Amended Secured Promissory Note dated January 31, 1994 in the original principal amount of \$15,000,000, assumed by Borrower as of August 30, 1994 (the "Amended Note"), (ii) Promissory Note dated October 7, 1994 in the original principal amount of \$416,278 (the "October 7 Note"), and (iii) Promissory Note dated October 27, 1994 in the original principal amount of \$1,401,500 (the "October 27 Note"), (the Amended Note, the October 7 Note and the October 27 Note are collectively sometimes referred to as the "Notes").

WHEREAS Borrower and Lender desire to issue this Note (I) in substitution and replacement of the Notes, and (ii) to provide for additional extensions of credit by Lender to Borrower pursuant to the terms and conditions of this Note.

FOR VALUE RECEIVED, the undersigned, Borrower, with an address of 700 Central Avenue, Louisville, Kentucky 40208, hereby promises and agrees to pay to the order of Lender, a Kentucky corporation having an address of 700 Central Avenue, Louisville, Kentucky 40208, the aggregate principal sum of Twenty Eight Million Seven Hundred Thousand (\$28,700,000), or so much thereof as may be advanced to or on behalf of Borrower pursuant to the terms of this Note, together with interest thereon as hereinafter provided, in lawful money of the United States of America, in the manner set forth herein and with a final maturity date of November 1, 2004, or such later date as may be extended in accordance with this Note (the "Loan Maturity Date").

The principal of this Note shall bear interest on the unpaid balance thereof at a rate per annum which shall be equal to Two Percent (2%) above the prime rate of interest announced from time to time by PNC Bank, Kentucky, Inc. ("PNC Bank") as its prime rate (the "Prime Rate"). The Prime Rate of PNC Bank, as used in this Note, shall mean that rate of interest announced from time to time by PNC Bank at its principal office in Louisville, Kentucky to be the Prime Rate of PNC Bank. Any change in the Prime Rate of PNC Bank shall be effective as of the beginning of the day on which such change becomes effective. All interest on this Note shall be computed daily on the basis of the actual number of days elapsed over a year assumed to consist of three hundred sixty (360) days.

Principal and interest on this Note shall be payable in the manner as set forth herein. Commencing on December 1, 1994, and continuing on the first day of each month thereafter through and including the Loan Maturity Date, Borrower shall promptly pay monthly installments of interest. As to any installment of interest, if Borrower does not pay such installment when due, such installment shall be deemed and constitute an additional advance of principal under this Note; provided, however, in no event will any such installment constitute an additional advance of principal under this Note if, when taking such installment into account, the outstanding principal balance under this Note equals or exceeds \$28,700,000. If any such installment constitutes an additional advance of principal under this Note pursuant to the immediately preceding sentence, such installment shall not be considered overdue under

Page 25 of 34

this Note nor will the failure to pay such installment when due be a default under this Note. The principal of this Note, and all accrued but unpaid interest thereon, shall be paid in full on or before November 1, 2004.

All additional advances of principal under this Note shall be made at such times, and upon such terms and conditions, as agreed to by Borrower and Lender.

Principal of this Note may be repaid in whole or in part without penalty or premium at any time.

All payments of principal and interest and any other sums due under this Note shall be made in immediately available funds to Lender at 700 Central Avenue, Louisville, Kentucky 40208, or to such other person or at such other address as may be designated in writing by the holder of this Note. All payments on this Note shall be applied first to the payment of any expenses or charges payable hereunder, and next to accrued interest, and then to the principal balance hereof, or in such other order as Lender may elect in its sole discretion.

Any payment on this Note that is overdue for more than fifteen (15) days from its due date shall, if requested by the holder of this Note, be increased by an amount equal to five percent (5%) of the overdue payment, or such lesser maximum amount as legally may be allowed. The charging or collection of a late charge shall not be deemed a waiver of any of the holder's rights hereunder, including the right to declare a default.

This Note is issued in part in replacement and substitution of the Notes, but does not constitute a forgiveness or novation of the indebtedness evidenced by such Notes, which is now evidenced by this Note. This Note shall be

deemed to be the "Note" issued pursuant to, and subject to all the terms and conditions of the Mortgage, Assignment of Rents, Security Agreement and Fixture Filing and Collateral Assignment of Contracts dated September 30, 1993, as amended on January 31, 1994, and as further amended on today's date between Borrower and the Lender and all other loan documents (the "Loan Documents"). The occurrence of any "Event of Default" under the Loan Documents or under any note, security document or other loan document between the Borrower, the Lender and any guarantor shall be an Event of Default hereunder, and Lender may, at its option, and without notice, declare the entire unpaid principal balance of, and all accrued interest on, this Note to be immediately due and payable and proceed to enforce and realize upon any or all security for this Note provided under the Loan Documents.

Without limiting the generality of the preceding paragraph, if default occurs in the payment of any installment of interest and/or principal hereunder when due or in the payment of any other sum herein specified when due, and such default shall have continued for a period of five (5) business days after written notice of such default is given by Lender to Borrower, the Lender may, without further notice, declare the entire unpaid principal balance of, and all accrued interest on, this Note to be immediately due and payable and proceed to enforce all remedies available to it and realize upon any or all security for this Note.

Whenever there is an Event of Default under this Note, the entire principal balance of, and all accrued interest on, this Note, and all other existing or hereafter created or arising liabilities, indebtedness and obligations of Borrower to the holder (however acquired or evidenced) shall, at the option of the holder, become forthwith due and payable, without presentment, notice, protest or demand of any kind (all of which are expressly waived by Borrower). Upon the occurrence of any such Event of Default, in addition to the other remedies afforded to the holder hereunder, the rate of interest then applicable to the entire unpaid principal balance of this Note shall, at the option of the holder, be increased by an increment of an additional four percent (4%) per annum, or such lesser increment as may be the maximum permitted by law.

This Note, the Loan Documents, and all other agreements between the Borrower and the holder of this Note, whether now existing or whether hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever, whether by reason of acceleration of the maturity hereof, or otherwise, shall the amount paid or agreed to be paid to the holder of this Note for the use, forbearance or retention of money loaned hereunder, or advanced for the performance or payment of any covenant or obligation contained herein, in any other Loan Document, or in any other document evidencing, securing or pertaining to the indebtedness evidenced hereby, exceed the maximum amount permissible under applicable law. If from any circumstances whatsoever, fulfillment of any provision of this Note, the Loan Documents, or of any such other document, at the time performance of such provisions shall be due, shall involve transcending the limit of validity prescribed by law, then IPSO FACTO the obligation to be fulfilled shall be reduced to the limit of such validity, and if from such circumstance the holder of this Note shall ever receive anything of value deemed by applicable law to be interest in any amount that would exceed the highest lawful rate payable hereunder, an amount equal to any excessive interest shall be applied to the reduction of the principal amount owing hereunder and not to the payment of interest, and if the amount that would be excessive interest exceeds the principal balance then owing, such excess shall be refunded to the party paying the same.

Failure of the holder of this Note to exercise any of its rights and remedies shall not constitute a waiver of the right to exercise the same at that or any other time. All rights and remedies of the holder for default under this Note shall be cumulative to the greatest extent permitted by law. Time shall be of the essence in the payment of all installments of interest and principal on this Note and the performance of Borrower's other obligations under this Note.

If there is any Event of Default under this Note, and this Note is placed in the hands of an attorney for collection or is collected through any court, including any bankruptcy court, Borrower promises to pay to the holder hereof its reasonable attorneys' fees and court costs incurred in collecting or attempting to collect or securing or attempting to secure this Note or enforcing the holder's rights in any collateral securing this Note, provided the same is legally allowed by the laws of the Commonwealth of Kentucky or any state where the collateral or part thereof is situated.

Without restricting any of the rights or remedies available to Lender, Lender shall have the right to set off, at any time after an Event of Default by Borrower under this Note, without notice to Borrower, any and all deposits or other sums at any time or times credited by or due from Lender to Borrower whether or not held by Lender in a special account or other account or represented by a certificate of deposit (whether or not matured), which deposits and other sums shall at all times constitute

additional security for the obligations of Borrower arising under this Note and under any of the other Loan Documents. Borrower hereby grants to Lender a lien on and a continuing security interest in all instruments, documents, securities, cash, chattel paper, general intangibles, deposits, certificates of deposit, other property, and the cash and noncash proceeds of any of the foregoing, owned by Borrower, or in which Borrower has an interest, which now or hereafter are at any time in possession or control of Lender, or in transit by mail or carrier to or from Lender or in the possession of any third party on behalf of Lender, without regard to whether Lender received the same in pledge, for safekeeping, as an agent for collection or transmission or otherwise, or whether Lender had conditionally released the same, all of which shall at all times constitute additional security for the obligations of Borrower hereunder and under the Loan Documents, and all of which may be applied at any time after an Event of Default by Borrower with respect to any of said obligations, without notice to Borrower, in such order as Lender may determine.

The invalidity or unenforceability of any provision of this Note shall not impair the validity or enforceability of any other provision of this Note.

This Note has been delivered in, and shall be governed by and construed in accordance with the laws of the Commonwealth of Kentucky.

Borrower and any other party who may become primarily or secondarily liable for any of the obligations of Borrower hereunder hereby (a) waive presentment, demand, notice of dishonor, protest, notice of protest, (b) further waive all exemptions to which they may now or hereafter be entitled under the laws of this or any other state or of the United States, and (c) further agree that the holder of this Note shall have the right without notice, to deal in any way, at any time, with Borrower, or any guarantor of this Note or with any other party who may become primarily or secondarily liable for, or pledge any collateral as security for, any of the obligations of Borrower under this Note and to grant any extension of time for payment of this Note or any other indulgence or forbearance whatsoever, and may release any security for the payment of this Note and/or modify the terms of the Loan Documents securing or pertaining to this Note, without in any way affecting the liability of Borrower, or such other party who may pledge any collateral as security for, or become primarily or secondarily liable for, the obligations of Borrower hereunder and without waiving any rights the holder of this Note may have hereunder or by virtue of the laws of this state or any other state of the United States.

IN THE EVENT LENDER SHALL AT ANY TIME INSTITUTE ANY ACTION OR PROCEEDING AGAINST BORROWER, BORROWER HEREBY CONSENTS TO THE JURISDICTION OF ALL COURTS OF THE COMMONWEALTH OF KENTUCKY AND ALL FEDERAL DISTRICT COURTS, AND TO THE VENUE OF ANY SUCH ACTION OR PROCEEDING IN THE STATE OR FEDERAL COURTS IN THE CITY OF LOUISVILLE, JEFFERSON COUNTY, KENTUCKY, WHICH IS THE PLACE OF MAKING OF THIS NOTE AND IS THE PRINCIPAL PLACE WHERE THE OBLIGATIONS OF BORROWER TO THE HOLDER HEREOF ARE TO BE PERFORMED.

TO THE FULLEST EXTENT PERMITTED BY LAW, BORROWER HEREBY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION BROUGHT BY ANY PARTY TO THIS NOTE AGAINST ANY OTHER PARTY TO THIS NOTE. THE CONSENT AND WAIVER CONTAINED

HEREIN HAS BEEN VOLUNTARILY AND KNOWINGLY MADE, AFTER THE BORROWER HAS BEEN ADVISED AND COUNSELED BY ITS ATTORNEYS AS TO THE NATURE THEREOF.

"BORROWER"

HOOSIER PARK, L.P.

By: Anderson Park, Inc., its general partner

By: /S/ JEFFREY M. SMITH

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Title: PRESIDENT

Date: MARCH 29, 1995

PARTICIPATION AGREEMENT

This PARTICIPATION AGREEMENT (this "Agreement") is made this 31st day of May, 1996, by and between Churchill Downs Management Company (the "Lead"), and Conseco HPLP, L.L.C. (the "Participant").

1. THE PARTICIPATION. The Lead hereby agrees to sell and the Participant hereby agrees to purchase a ten percent (10%) (the "Participation Percentage") undivided participation interest in the loan (the "Loan") heretofore made by the Lead to Hoosier Park, L.P. (the "Borrower") pursuant to (A) the Construction Loan and Permanent Financing Agreement, dated September 30, 1994, between Anderson Park, Inc., an Indiana corporation ("API"), and the Lead (the "Construction Loan Agreement"), as assumed by the Borrower pursuant to (I) the Hoosier Park Agreement of Limited Partnership dated August 30, 1994 and (ii) the Assumption Agreement, dated August 30, 1994, executed by the Borrower in favor of API (the "Assumption Agreement"), and as amended by (I) the Agreement Regarding Construction Loan and Permanent Financing Agreement, Mortgage, Collateral Assignment of Contract and Other Matters, dated January 31, 1994, between API and the Lead (the "January 31, 1994 Agreement"), (ii) the Loan Extension Agreement, dated June 1, 1994, between API and the Lead (the "Extension Agreement"), and (iii) the Second Agreement Regarding Construction Loan and Permanent Financing Agreement, Collateral Assignment of Contract and Other Matters dated as of November 30, 1995 (the November 30, 1995 Amendment") and (B) the Second Amended Secured Promissory Note, dated November 1, 1994, by Borrower in favor of the Lead (the "Note"). The Loan is secured pursuant to (A) the Collateral Assignment of Contracts, dated September 30, 1993, between API and the Lead (the "Collateral Assignment"), as assumed by the Borrower pursuant to the Assumption Agreement and as amended by the January 31, 1994 Agreement, and the November 30, 1995 Amendment, (B) the Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated September 30, 1993, between API and the Lead (the "Mortgage"), as assigned to the Borrower pursuant to the Assumption Agreement and the Assignment and Assumption of Mortgage, Assignment of Rents, Security Agreement and Fixture Filing and Consent to Assignment, dated August 30, 1995, executed by the Borrower in favor of API (which was consented to by the Lead and accepted by the Borrower pursuant to agreements dated August 30, 1994) (collectively the "Mortgage Assignments") and as amended by (I) the January 31, 1994 Agreement and (ii) the Second Agreement Amending Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated as of November 30, 1995, between the Lead and the Borrower (the "Second Amendment");(C)the API Pledge Agreement, dated August 30, 1994, between API and the Lead, (D) the Pegasus Pledge Agreement, dated August 30, 1994, between Pegasus Group, Inc., an Indiana corporation and the Lead and (E) the Conseco Pledge Agreement, dated May 31, 1996, between the Participant and the Lead. The Construction Loan Agreement, the Assumption Agreement, the January 31, 1994 Agreement, the Extension Agreement, the November 30, 1995 Amendment, the Note, the Collateral Assignment, the Mortgage, the Mortgage Assignments, the Second Amendment, the API Pledge Agreement, the Pegasus Pledge Agreement and the Conseco Pledge Agreement (collectively, together with any other documentation evidencing the Loan and any security therefor, the "Loan Documents") are attached hereto as Exhibits A, B, C, D, E, F, G, H, I, J, K, L and M respectively.

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2. (a) PAYMENT FOR PARTICIPATION. The Participant, concurrently with the execution of this Agreement, shall pay to the Lead \$ 2,599,000.00, the same being the Participation Percentage of all advances made to the Borrower pursuant to the Loan Documents as of the date of the closing (the "Closing Date") of the purchase by the Participant of a ten percent (10%) partnership interest in the Borrower from API, pursuant to the Partnership Interest Purchase Agreement, dated as of December 20, 1995 (the "Purchase Agreement"). The Participant shall pay to the Lead the Participation Percentage of advances made to the Borrower pursuant to the Loan Documents in conformity with this Agreement after the Closing Date and such payments shall be made on the date of such advance or as then agreed between the Lead and the Participant. The Lead shall give Participant written notice of such advance three (3) business days prior to any such advance.

(b) OPTION PARTICIPATION. If the Conseco Option is exercised pursuant to Section 2.04 of the Purchase Agreement, then at the Option Closing, Conseco shall execute a new and amended Participation Agreement, with the same terms and conditions as the Agreement, except that Participant's purchase of the interest in the Loan shall be for an additional fifty-five and fifty-two one hundredths percent (55.52%) undivided participation interest in the Loan, so that at the Option Closing, Participant will have purchased a sixty-five and fifty-two one hundredths percent (65.52%) undivided participation interest in the Loan made by the Lead to Borrower.

3. REMISSION OF PAYMENTS RECEIVED. Within one (1) business day of its receipt thereof, the Lead shall pay to the Participant (a) the Participation Percentage of any interest payment hereafter received from the Borrower in connection with the Loan Documents, and (b) the Participation Percentage of all fees, principal payments, proceeds from collateral, insurance proceeds, damages, reimbursements of expenses, or other payments hereafter received by the Lead in connection with the Loan Documents.

4. EXPENSES. The Participant shall pay to the Lead the Participation Percentage of any costs in fact incurred or disbursed in connection with the enforcement of the Loan Documents and in conformity with the requirements of this Agreement, including without limitation, all reasonable attorneys fees and

other expenses in connection with the enforcement of rights against the Borrower, and realization upon any collateral, which payment shall be made within fifteen (15) business days after written notice of such incurrence or disbursement is received by participant from Lead.

5. REPAYMENT OF DISTRIBUTED FUNDS. The Participant shall repay to the Lead any amounts distributed to the Participant which the Lead is required to return to the Borrower or any receiver, trustee, or custodian for the Borrower, promptly after written notice of the same by the Lead to the Participant.

6. ADMINISTRATION OF LOANS. In the absence of any contrary written agreement between the Lead and the Participant, the Lead shall have responsibility for administering the Loan and, in doing so, shall exercise the same degree of care, skill, and prudence as it would if the Loan were made entirely for its own account. The Lead shall deliver prior notice in writing or by facsimile (with telephone confirmation) to the Participant of any proposal to (a) extend the maturity date under the Loan Documents, (b) change the interest rate under the Loan Documents, (C) change the

principal amount of the Loan, (d) supplement, release or accept substitute collateral under the Loan Documents or permit such collateral to secure any other obligations other than obligations evidenced by the Loan Documents and obligations owed to the Lead, or an affiliate of Lead, in excess of Twenty-Eight Million Seven Hundred Thousand Dollars (\$28,700,000) which are subordinated to the Loan, (e) enforce rights or refrain from enforcing rights under the Loan Documents, or (f) waive or modify any term of the Loan Documents. The Participant may veto (which veto may not be unreasonably exercised) the proposed action by delivering to the Lead notice thereof in writing or by facsimile within three (3) business days after receipt of the notice of the proposed action.

7. RECOURSE AGAINST LEAD. The Participant shall have no recourse against the Lead for the Borrower's failure to make any payment or perform or comply with any other obligation under the Loan Documents unless such failure was caused by the Lead's gross negligence, fraud or willful misconduct or by any material breach by the Lead of this Agreement.

8. NOTIFICATION OF PARTICIPANT. The Lead shall promptly deliver to the Participant all financial statements received from the Borrower and, to the extent that the Lead has actual knowledge thereof, shall use best efforts to notify the Participant of the occurrence of any events of default under the Loan Documents, of any material, adverse change in the value or lien status of any collateral, or of any material adverse change in the creditworthiness of the Borrower and, upon reasonable request from the Participant, shall deliver a report on the payment status of the Loan and shall permit the Participant to inspect the Lead's books and accounts with respect to the Loan.

9. RECORDKEEPING. The Lead shall keep full and complete records and accounts of the Loan.

10. SECURITIES LAW MATTERS. The Participant represents to Lead that the participation contemplated hereunder (a) is being purchased for the Participant's own account in the ordinary course of its business, for investment purposes only and not with a view to resale or distribution and will not be sold, assigned or hypothecated in any manner whatsoever without full compliance with the provisions of the Agreement and with all applicable state and federal securities laws, (b) is not a loan from the Participant to the Lead, and the Lead has no obligation to repurchase such participation interest, and (c) does not create a fiduciary relationship between the Lead and the Participant.

The Participant has independently reviewed the Loan Documents, has had free access to all documents related to the Loan that are within the Lead's possession, and has conducted to the extent that it has deemed necessary an independent investigation of the creditworthiness of the Borrower. The Participant expressly disclaims reliance on the Lead in entering into this Agreement. The Participant acknowledges receipt of certain disclosures and representations and warranties by Borrower in and subject to the provisions of the Purchase Agreement. The Participant accepts in full all risks of the participation, recognizing that such participation is speculative and may result in a loss of its entire payment for such participation. The Lead does not make and specifically disclaims any representation or warranty, express or implied, regarding the accuracy or completeness of the information about the Borrower delivered to the Participant, the creditworthiness of the Borrower, the value of any collateral, the validity or priority of any lien or the validity and enforceability of the Loan Documents.



11. ASSIGNMENT. Neither the Lead nor the Participant shall assign or otherwise transfer in whole or in part its interest in the Loan without the prior written consent of the other.

12. AMENDMENT. No amendment, modification or waiver of this Agreement shall be effective unless contained in writing and signed by the party against whom enforcement is sought. No waiver by either party of any provision or condition of this Agreement shall be construed or deemed to be a waiver of any other provision or condition of this Agreement nor a waiver of a subsequent breach of the same provision or condition.

13. ENTIRE AGREEMENT. This Agreement and the Purchase Agreement constitute the entire agreement between the Lead and the Participant and supersedes any prior written or oral agreements with respect to the subject matter hereof.

14. NOTICES. Notices pursuant to this Agreement shall be in writing or by facsimile as follows:

If to the Lead, to: Churchill Downs Management Company  
700 Central Avenue  
Louisville, KY 40208  
Attention: Jeffrey M. Smith  
Telephone: (502) 636-4421  
Facsimile: (502) 636-4560

with a copy to: Churchill Downs Management Company  
700 Central Avenue  
Louisville, KY 40208  
Attention: Alexander M. Waldrop  
Telephone: (502) 636-4419  
Facsimile: (502) 636-4439

If to the Participant, to: Conseco HPLP, L.L.C.  
11825 North Pennsylvania Street  
P.O. Box 1911  
Carmel, Indiana 46032  
Attention: Lawrence W. Inlow  
Telephone: (317) 817-6163  
Facsimile: (317) 817-6327

15. GOVERNING LAW. This Agreement shall be governed by Indiana law.

\* \* \* \* \*

IN WITNESS WHEREOF, the parties have executed this Agreement this 31st day of May, 1996.

CHURCHILL DOWNS MANAGEMENT COMPANY

By: /S/ JEFFREY M. SMITH  
-----  
Jeffrey M. Smith, President

CONSECO HPLP, L.L.C.

By: CONSECO, INC., its Managing  
Member

By: /S/ LAWRENCE W. INLOW  
-----  
Lawrence W. Inlow,  
Executive Vice President

Acknowledged, agreed to and approved by the Partnership:

HOOSIER PARK, L.P.

By: ANDERSON PARK, INC.,  
its General Partner

By: /S/ JEFFREY M. SMITH  
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Jeffrey M. Smith,  
President

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