

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

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 26, 2002

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

| | | |
|---|--------------------------|--------------------------------------|
| Kentucky | 0-01469 | 61-0156015 |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

700 CENTRAL AVENUE, LOUISVILLE, KENTUCKY 40208
(Address of principal executive offices)

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

NOT APPLICABLE
(Former name or former address, if changed since last report)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

In connection with the issuance by the City of Louisville, Kentucky (the "City") of an industrial revenue bond related to the financing of the master plan redevelopment project of Churchill Downs Incorporated (the "Company") of its Churchill Downs racetrack facility in Louisville, Kentucky (the "Facility"), on December 26, 2002 the Company transferred to the City the real property and improvements and tangible personal property of the Facility, which assets the City then immediately leased back to the Company. The transfer by the Company to the City of the Facility assets was for nominal consideration. Under the lease of the Facility assets by the Company from the City, the lease payments under the lease will pay the debt service on the bond issued by the City, and the Company may reacquire from the City the Facility assets transferred to the City upon payment of any amount owed under the lease plus \$1.00 and the satisfaction of certain other conditions set forth in the lease. The bond issued by the City was purchased by a wholly-owned subsidiary of the Company.

A copy of the press release announcing the completion of the transaction is attached as Exhibit 99 to this Current Report on Form 8-K.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial statements of businesses acquired.
Not applicable.

(b) Pro forms financial information
Not applicable.

(c) Exhibits

2.1 Lease Agreement dated as of January 1, 2002 by the City of Louisville, Kentucky, lessor, and Churchill Downs Incorporated, lessee.

99 Press release issued on December 26, 2002 by Churchill Downs Incorporated.

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 hereunto duly authorized.

CHURCHILL DOWNS INCORPORATED
(Registrant)

By: /s/ MICHAEL E. MILLER
Michael E. Miller, Chief
Financial Officer

Date: January 6, 2003

LEASE AGREEMENT

between

CITY OF LOUISVILLE, KENTUCKY
Lessor

and

CHURCHILL DOWNS INCORPORATED
Lessee

Dated as of January 1, 2002

This Instrument Prepared by:

/s/ JOHN S. EGAN
John S. Egan
FROST BROWN TODD LLC
400 W. Market Street, 32nd Flr.
Louisville, Kentucky 40202
(502) 589-5400

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LEASE AGREEMENT

THIS LEASE AGREEMENT (the "Lease"), dated as of January 1, 2002, between the CITY OF LOUISVILLE, KENTUCKY, a municipality and political subdivision of the Commonwealth of Kentucky, having an address at 601 West Jefferson Street, Louisville, Kentucky 40202 ("Lessor") and CHURCHILL DOWNS INCORPORATED, a Kentucky corporation, having an address at 700 Central Avenue, Louisville, Kentucky 40208-1200 ("Lessee"):

WHEREAS, Lessee is in the process of expanding and renovating the historic racetrack facility known as "Churchill Downs Racetrack" (the "Facility") located at 700 Central Avenue, Louisville, Kentucky (the "Site");

WHEREAS, the Project (as defined in the Loan Agreement, defined below) as proposed by Lessee will be utilized to make horseracing, entertainment, dining, pari-mutuel wagering and other recreational activities available to the public, and the racetrack facility, as improved by the Project, will be a "recreation park" within the meaning of Chapter 103 of the Kentucky Revised Statutes (the "Act");

WHEREAS, Lessor has determined that the Project will enhance Churchill Downs Racetrack as a unique asset of Lessor, will create and preserve jobs for the community (both during construction and thereafter during operation of the Project) and will increase tax revenues for Lessor;

WHEREAS, Lessee has requested that Lessor issue industrial building revenue bonds under the Act in order to provide financing for the Project;

WHEREAS, Lessor has determined that the issuance of industrial building revenue bonds in connection with the Project will promote the economic development of Lessor

and the Commonwealth of Kentucky (the "Commonwealth"), will help relieve conditions of unemployment through the creation of construction and other jobs and will further improve the status of Churchill Downs Racetrack as a "world class" recreational destination, thereby helping to make Lessor and the Commonwealth more attractive to industry and helping to encourage the increase of industry in the Commonwealth;

WHEREAS, Lessor is therefore issuing its City of Louisville, Kentucky Taxable Industrial Building Revenue Bond, Series 2002 (Churchill Downs Incorporated Project), in an amount of \$153,000,000, issued as a single draw-down Bond (the "Bond") pursuant to the Act; and

WHEREAS, pursuant to that certain Loan Agreement (the "Loan Agreement") of even date herewith by and among Lessor, Lessee, and Churchill Downs Investment Company, a Kentucky corporation (the "Lender"), Lender has agreed to purchase the Bond of Lessor and make the Loan(s) (as defined in the Loan Agreement) to Lessor in accordance with the provisions of the Loan Agreement; and

WHEREAS, the proceeds of such Bond are and will be advanced directly to Lessee pursuant to the Loan Agreement and used to assist Lessee with the financing of certain costs of the Project; and

WHEREAS, in order to permit the issuance of the Bond under the Act for the purposes of financing the costs of the Project, Lessee is simultaneously conveying to Lessor, subject to the Existing Mortgage and the Existing Security Agreement, the Site on which the existing facilities are being renovated and expanded, together with improvements, fixtures, machinery and equipment and other tangible personal property now or hereafter located thereon, and Lessor and Lessee wish to simultaneously enter into this Lease pursuant to which Lessee will lease back

such land, improvements, fixtures, machinery and equipment and other tangible personal property from Lessor in return for rental payments sufficient to pay debt service on the Bond;

WHEREAS, Lessee has agreed to make lease payments to Lessor under this Lease in amounts equal to the amounts due from Lessor to the Lender under the Bond and, pursuant to the Lease, Lessor has directed that Lessee make payments otherwise payable by it hereunder to Lessor directly to the Lender; and

WHEREAS, in connection with the transactions contemplated by the Loan Agreement the parties hereto desire to enter into this Lease;

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and of the premises, the parties hereto enter into this Lease as follows:

1. DEFINED TERMS. All capitalized terms used and not otherwise defined herein shall have the respective meanings assigned thereto in the Loan Agreement.

2. GRANT AND TERM OF LEASE. Upon the term and conditions hereinafter set forth and subject to the Existing Mortgage and the Existing Security Agreement, Lessor hereby leases to Lessee, and Lessee leases from Lessor, all of the following (collectively, the "Leased Premises"): the land and all buildings, structures, other improvements and fixtures now standing or at any time hereafter constructed or placed upon the Site, including, without limitation, all of the foregoing which are included in or constitute a part of the Facility (said buildings, structures, other improvements and fixtures being herein collectively called the "Improvements") and all equipment, machinery, furniture, furnishings and removable fixtures of every kind and nature (the "Tangible Personal Property" as more particularly described in the Bill of Sale) whatsoever which are now or at any time hereafter located in or upon, or affixed to, the Site (the description of which site is attached hereto and made a part hereof as EXHIBIT A hereto) and/or any

Improvements which now or hereafter are used or useful in connection with, or constitute a part of, the Facility. The Leased Premises do not include any inventory, accounts receivable or intangible personal property. The term (the "Term") of this Lease shall be from January 1, 2002 to December 31, 2032. Notwithstanding the foregoing, Lessee shall have the option at any time during the Term to terminate this Lease by exercising its Option to Purchase pursuant to Section 4 hereof; provided, however, that the indemnification obligations from Lessee in favor of Lessor shall survive termination of the Lease, pursuant to Article VI of the Loan Agreement.

3. RENT. Until the Rent Termination Event (hereinafter defined), rent hereunder (the "Rent") shall be equal to the amounts payable to the Lender pursuant to the Bond and shall be payable in the amounts and at the times interest or principal is payable to Lender under the Bond. The Bond is a "draw-down" bond, with principal to be advanced from the Lender to Lessee, pursuant to the terms of the Bond. A schedule of disbursements of principal is to be attached to the Bond. Lessor hereby irrevocably and unconditionally directs Lessee to pay, as Rent, all amounts due under the Bond directly to the Lender, at the times and in the manner prescribed in Bond and the Loan Agreement. As used herein, the term "Rent Termination Event" shall mean the earlier of (i) the payment and performance in full of all obligations of Lessee under this Lease and the Loan Agreement and the other Bond Documents or (ii) the termination of this Lease pursuant to the proper exercise of the Option to Purchase, as hereinafter noted.

The obligations of Lessee to pay Rent pursuant to this Lease and to perform and observe the other agreements and covenants on its part contained herein shall be absolute and unconditional. Until such time as the principal of, premium, if any, and interest on the Bond and any other amounts payable to Lessor under any other Bond Documents shall have been fully paid or other provision for the payment thereof shall have been made in accordance with the Loan

Agreement, Lessee (i) shall not suspend or discontinue any Rent pursuant to this Lease (unless consented to by the Lender), (ii) shall perform and observe all its other agreements contained in this Lease, and (iii) except as provided in Section 4 hereof, shall not terminate this Lease for any cause including, without limiting the generality of the foregoing, failure to complete the Project, failure of title of the Project or any part thereof, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the Commonwealth of Kentucky or any political subdivision thereof or any failure of Lessor to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with this Lease. Nothing contained in this Section shall be construed to release Lessor from the performance of any of the agreements on its part herein contained; and in the event Lessor should fail to perform any such agreement on its part, Lessee may institute such action against Lessor as Lessee may deem necessary to compel performance so long as such action shall be in accordance with the agreements on the part of Lessee contained in the preceding sentence. Lessee may, however, at its own expense and in its own name or in the name of Lessor, prosecute or defend any action or proceeding or take any other action involving third persons which Lessee deems reasonably necessary in order to insure completion of the acquisition, construction, installation and equipping of the Project or to secure or protect Lessor's and its respective rights of ownership, possession, occupancy and use of the Project, and in such event Lessor hereby agrees to cooperate fully with Lessee.

4. OPTION TO PURCHASE. At (i) the scheduled expiration of the Term of this Lease or (ii) on the first day of each month during the Term of this Lease Agreement, Lessee shall have the option to purchase all or any portion of the Leased Premises from Lessor for One Dollar

(\$1.00), subject to satisfaction of the conditions set forth in this Section 4. The rights granted to Lessee in this Section 4 shall be deemed the "Option to Purchase."

Lessee's right to exercise its Option to Purchase hereunder is conditioned upon satisfaction of all of the following conditions:

(i) the absence of any default under the Insurance Agreement (provided that any default which has been waived by the non-defaulting party may be disregarded for purposes of this sentence);

(ii) the payment of, or provision to Lessor of adequate security ("adequate security" to be determined by Lessor in its reasonable discretion) for, any fees, expenses, claims, other amounts or payments then due to Lessor and for other obligations incurred and to be incurred by the Lessor in connection with the Project or under the Loan Agreement, the Lease, the Insurance Agreement or the other Bond Documents (provided, that, to the extent that Lessor has any fees, expenses or claims against Lessee for indemnification arising under either Section 6.5 or Section 7.11 of the Loan Agreement, Lessee will be deemed to have provided adequate security to Lessor for such fees, expenses or claims by providing Lessor with evidence that it is in compliance with the requirements of Section 7 of this Lease and the Insurance Agreement) or the other Bond Documents;

(iii) the payment of any ad valorem taxes then due and payable to the City, the School District, the Commonwealth of Kentucky and other local taxing authorities with respect to the Project;

(iv) Lessee's delivery to Lessor of a statement in writing from Lender acknowledging that the amounts due under the Loan Agreement (including the Bond) have been paid in full or forgiven; and

(v) Lessee's delivery to Lessor of at least fifteen (15) days prior written notice stating (a) that Lessee wishes to exercise the Option to Purchase, (b) that the conditions for exercise of the Option to Purchase under Section 4 of the Lease are satisfied (acknowledging, however, that Lessor, in its reasonable discretion, shall be entitled to determine whether in fact such conditions have been satisfied insofar as they affect Lessor's rights), and (c) the time, date and place at which closing of the transfer of the title to the Leased Premises shall occur.

If Lessee properly exercises the Option to Purchase granted under this Section 4, and all of the foregoing conditions have been met, Lessor shall, on the date and at the time and place specified in Lessee's notice of exercise, convey to Lessee, by quitclaim deed and bill of sale with no warranties, all of Lessor's right, title and interest to the Leased Premises. Lessee shall bear all cost and expenses in connection with the preparation of the documents of conveyance and the delivery thereof and all fees, assessments, taxes and charges in connection with the conveyance of title to the Project. Notwithstanding any of the foregoing to the contrary, if (i) Lessee properly gives notice of its Option to Purchase hereunder to Lessor, (ii) all of the foregoing conditions have been met and (iii) Lessor fails to execute and deliver a quitclaim deed and bill of sale to Lessee, legal and equitable title to the Leased Premises shall automatically be transferred from Lessor to Lessee notwithstanding the fact that no quitclaim deed and no bill of sale has been executed by Lessor. It is the intention of the parties that at the conclusion of the Term of the Lease or at the conclusion of the Term of the Lease pursuant to the Option to Purchase, title to

the Leased Premises shall automatically be vested in Lessee, subject to any of the foregoing limitations to the extent applicable. Upon conveyance of title and payment therefor as aforesaid, this Agreement shall cease and terminate and all obligations of Lessee and Lessor hereunder, except obligations pertaining to indemnification, shall be terminated and extinguished.

5. TITLE, USE AND QUIET ENJOYMENT. Lessor covenants, warrants and represents that at all times prior to the expiration or other termination of this Lease when Lessee is not in default hereunder or under other Bond Documents beyond applicable grace periods, if any, the peaceable and quiet enjoyment of the Leased Premises by Lessee shall not be disturbed by Lessor; provided, however, that Lessor (in its capacity as a municipal body and not as landlord hereunder) shall not be prevented from enforcing, as against Lessee or the Leased Premises, any laws of general application heretofore or hereafter enacted by Lessor (in its capacity as a municipal body).

6. COVENANT FOR OPERATION AND MAINTENANCE. Lessor shall have no responsibility for the maintenance, operation or repair of the Leased Premises or any expenses associated therewith. So long as any Bond is outstanding, Lessee will maintain, preserve and keep the Project, or cause the Project to be maintained, preserved and kept, in good repair, working order and condition and will from time to time make or cause to be made all proper repairs, replacements and renewals necessary to continue to constitute the Project as an industrial building project under KRS Chapter 103; provided, however, that Lessee will have no obligation to maintain, preserve, keep, repair, replace or renew any element or portion of the Project (i) the maintenance, preservation, keeping, repairing, replacement or renewal of which becomes uneconomical to Lessee because of damage or destruction by a cause not within the control of Lessee, or condemnation of all or substantially all of the Project or obsolescence (including

economic obsolescence) or change in government standards and regulations, and (ii) with respect to which Lessee has furnished to Lessor and the Lender a certificate executed by Lessee certifying that the maintenance, preservation, keeping, repair, replacement or renewal of such element or unit of the Project or the Project itself is being discontinued for one of the foregoing reasons, which shall be stated therein.

7. INSURANCE. During the Term of this Lease, and in addition to the requirements of the Existing Mortgage, the Existing Security Agreement, any Leasehold Mortgage and the Insurance Agreement, Lessee covenants to maintain insurance (at Lessee's own expense) as follows:

(a) Lessee shall continuously at all times during the Lease Term maintain insurance against such risks as are customarily insured against by businesses of like size and character, paying as the same become due all premiums in respect thereto, including, without limitation, public liability insurance.

(b) All insurance shall be taken out and maintained with generally recognized responsible insurance companies qualified to do business in the Commonwealth of Kentucky and may be written with deductible amounts comparable to those on similar policies by other businesses of like size and character. Each public liability insurance policy with respect to the Leased Premises shall name Lessor as an additional insured. Lessee shall not permit any condition to exist with respect to the Leased Premises which would wholly or partially invalidate the insurance thereon. Unless a policy with such an undertaking is unavailable or is available only at a cost which Lessee reasonably determines to be unreasonable, each policy shall contain an undertaking by the insurer that such policy shall not be modified adversely to the interest of Lessor or cancelled without at least thirty (30) days' prior notice to Lessor.

(c) Notwithstanding any provision hereof to the contrary, Lessee shall also maintain liability insurance in at least the minimum amount required by the Insurance Agreement. Lessee shall cause its policy or policies for liability insurance to name Lessor as an additional insured and additional loss payee.

(d) Notwithstanding any provision hereof to the contrary, but subject to the Insurance Agreement, Lessee may self-insure any insurance required hereunder.

8. TAXES AND OTHER GOVERNMENT CHARGES. It is understood, acknowledged and agreed by the parties that pursuant to KRS 103.285, the Project and the Leased Premises are intended to be exempt from taxation by Lessor and other political subdivisions in Kentucky to the same extent as other public property used for public purposes, as long as the same are owned by Lessor. Except for such taxes exempted by virtue of KRS 103.285, Lessee covenants and agrees to pay during the term of this Lease, as the same respectively become due, as additional lease rentals, all other taxes, payments in lieu of taxes, assessments and other governmental charges of any kind whatsoever, if any, that may at any time be lawfully assessed, levied or charged against or with respect to the Project or any payments made or to be made pursuant to this Lease; provided, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, Lessee shall be obligated to pay only such installments as may have become due. Additionally, Lessee agrees to pay to the Jefferson County School District payments in lieu of taxes equal to the amounts which would have been due and payable by Lessee absent the application of KRS 103.285.

Lessee may, at its expense and in its own name, in good faith contest any such asserted taxes, assessments and other governmental charges and, in the event of any such contest, may permit the taxes, assessments or other governmental charges so contested to remain unpaid

during the period of such contest and any appeal therefrom unless Lessor shall notify Lessee that, in the opinion of its counsel, by nonpayment of any such items the security provided pursuant to the provisions of this Lease will be materially endangered, in which event such taxes, charges for payments in lieu of taxes, assessments or charges shall be paid forthwith or such other arrangements to protect the interests of the Lessor as are acceptable to Lessor shall be made. Lessor will cooperate fully with Lessee in any such contest. In the event Lessee shall fail to pay any of the foregoing items required by this Section to be paid by Lessee, Lessor or the Lender may (but shall be under no obligation to) pay the same and any amounts so advanced therefor by Lessor or the Lender shall become an additional obligation of Lessee to the one making the advancement, which amounts, together with interest thereon, Lessee agrees to pay. Lessee may, at its expense and in its own name and behalf, apply for any tax exemption or exemption from payments in lieu of taxes allowed by the Commonwealth of Kentucky, or any political or taxing subdivision thereof under any existing or future provisions of law which grants or may grant any such tax exemption or exemptions from payments in lieu of taxes.

9. CONDEMNATIONS; CASUALTY.

(a) In the event of any taking of the Leased Premises or any portion thereof under the power of eminent domain, or otherwise by any public or quasi-public authority (or any conveyance of the Leased Premises or any portion thereof in lieu of or in anticipation of any such taking), subject to the Existing Mortgage, the Existing Security Agreement and any Leasehold Mortgage, (i) this Lease shall, upon the vesting of title pursuant to such taking or conveyance, terminate as to the portion of the Leased Premises so taken; (ii) if, in the judgment of Lessee the restoration or continued operation of the Improvements after such taking or conveyance is not economically feasible, and no default hereunder then exists which remains

unwaived by the Lender or Lessor, Lessee may, upon fifteen (15) days prior written notice to Lessor and with the prior written consent of the Lender (and in addition to any other rights of cancellation to which Lessee may be entitled hereunder), terminate this Lease as to the remainder of the Leased Premises by exercising the Option to Purchase pursuant to Section 4 hereof. Subject to the Existing Mortgage, the Existing Security Agreement, any Leasehold Mortgage, the Insurance Agreement and the rights of Lessor to indemnification under any Bond Documents, all such proceeds shall first be applied to the restoration of the Improvements (if Lessee shall elect to restore the same) or the removal thereof, and any balance thereof remaining after such application shall be paid only to Lessee.

(b) In the event of any damage or destruction to the Leased Premises by fire or other casualty, subject to the Existing Mortgage, the Existing Security Agreement, any Leasehold Mortgage, the Insurance Agreement and the rights of Lessor to indemnification under any Bond Documents, all proceeds shall first be applied to the restoration of the Improvements (if Lessee shall elect to restore the same) or the removal thereof, and any balance thereof remaining after such application shall be paid only to Lessee. If, in the judgment of Lessee, the restoration of the Improvements and their continued operation thereafter is not economically feasible, Lessee may, if not in default hereunder, subject to the Existing Mortgage, the Existing Security Agreement, any Leasehold Mortgage, the Insurance Agreement and the rights of Lessor to indemnification under any Bond Documents, upon fifteen (15) days' prior written notice to Lessor and with the prior written consent of the Lender (and in addition to any other rights of cancellation to which Lessee may be entitled hereunder), terminate this Lease by exercising the Option to Purchase pursuant to Section 4 hereof. Notwithstanding whether Lessee exercises the Option to Purchase, subject to the Existing Mortgage, the Existing Security Agreement, any

Leasehold Mortgage, the Insurance Agreement and the rights of Lessor to indemnification under any Bond Documents, Lessee shall be entitled to settle all insurance claims and to receive all insurance proceeds.

10. ALTERATIONS AND ADDITIONS. Lessee shall have the privilege of requesting additional assistance in completing the Project, by issuance of additional issues of bonds (subject to acceptance of such request by Lessor, if Lessor is asked to issue such bonds) or through financing from other sources, and for the making of alterations, additions and improvements upon, in and to the Project, as it in its discretion may from time to time determine to be desirable for its use and purposes and as do not adversely affect the use, operating unity or value of the Project or the structural integrity of any building or other structure forming a part thereof. Any or all of said alterations, additions, or improvements shall be located wholly within the boundary lines of the Site and comply with all applicable federal, state and local laws and regulations thereunder. All such alterations, additions and improvements, except structures which are independent of the Project and not connected thereto by party walls and with respect to which release of a portion of the Site has been made, shall become part of the Project.

11. NON-PROJECT PROPERTY; REMOVAL OF PROPERTY FROM THE PROJECT. It is recognized and acknowledged that Lessee may install in and about the Project at its own expense machinery, equipment and other general property to which it may choose to retain title. All such machinery, equipment and property shall remain the sole property of Lessee and shall not be conveyed to Lessor.

Nothing contained in this Lease shall prohibit or prevent Lessee from leasing machinery, equipment or other property or from purchasing such property for use in or about the Project under a conditional sales contract, lease sale contract or subject to vendor's lien or security

interest as security for the unpaid portion of the purchase price thereof, provided no such lien or security interest shall otherwise attach to the Project. Lessor and the Lender, if requested by the Borrower, shall consent to the installation of any such machinery, equipment or other property and waive and relinquish to the seller or lessor thereof, as the case may be, all right of levy for rent and all claims and demands of every kind against any such property installed or to be installed under any such lease or contract.

Lessee shall have the right, in its reasonable discretion, to replace any tangible real or personal property constituting a portion of the Property with other tangible real or personal property of equal or greater value or to sell any tangible real or personal property constituting a portion of the Property so long as the aggregate value of all such real or personal property sold without replacement is less than five percent (5%) of the value of the Project.

12. DEFAULT. If (i) Lessee fails to pay the Rent specified in Section 3 hereof to the Lender at the times and in the manner provided herein and such failure continues for sixty (60) days after notice from Lender to Lessee and Lessor, or (ii) Lessee defaults under the Insurance Agreement or otherwise materially fails to comply with the terms of Section 7 hereof and such default or failure continues for fifteen (15) days after notice from Lessor to Lessee, or (iii) Lessee defaults in compliance with any other material obligation or covenant owing from Lessee to Lessor hereunder and fails to cure such default within sixty (60) days after notice to cure such default (provided, however, that if at the end of the 60-day period referred to in clause (iii) Lessee is attempting to cure a default of the nature referred to in such clause with due diligence, such sixty (60) day period shall be extended for so long as Lessee continues to attempt to cure such default), then Lessor may, at Lessor's option and in addition to any and all other rights and remedies that Lessor may have at law or in equity, terminate this Lease, without prejudice to any

rights of indemnification Lessor may have hereunder or under the Loan Agreement or under the Insurance Agreement (which rights shall survive any such termination). In addition, upon the occurrence of a default referred to in (ii) above and the continuation of such default or failure for fifteen (15) days after notice from Lessor to Lessee, Lessor may, if it determines to do so in its sole discretion, immediately cause the Leased Premises to be transferred back to Lessee. The occurrence of any default under this Lease shall not derogate from the right of Lessee to exercise its Option to Purchase under Section 4 hereof, which right shall remain in effect upon termination of this Lease following a default, and which right may be exercised upon Lessee's satisfaction of the conditions set forth in Section 4 hereof.

13. WAIVER OF REQUIREMENTS. No requirement whatsoever of this Lease shall be deemed waived or varied except in writing, nor shall Lessor's or Lender's acceptance of any payment with knowledge of any default constitute a waiver of Lessor's or Lender's rights thereby nor of any subsequent or continued breach of any requirements of this Lease. All remedies herein provided for shall be in addition to, and not in substitution for, any remedies otherwise available to Lessor or Lessee.

14. NOTICES. All notices, requests, consents and other communications ("Notices") required or contemplated by the provisions hereof shall be in writing and personally delivered, or sent by facsimile, telecopy, telex, telegram, cable, mail (by certified or registered mail, return receipt requested, fully prepaid) or by reputable overnight courier, fully prepaid, as to each party hereto, at its address set forth below or at such other address as shall be designated by such party in a notice to the other party hereto given pursuant to this Section. All notices shall be effective (i) if personally delivered on a Business Day during normal business hours in the time zone in which delivered, when so delivered, (ii) if sent by telecopy, telex, telegram or cable during

normal business hours in the time zone in which delivered, when so received, or the next Business Day if sent after normal business hours in the time zone sent to, (iii) if so mailed, upon receipt thereof and (iv) if by such courier, on the next Business Day, except that if such courier shall be delivering to a foreign country, three Business Days after being given to such courier. For the purposes of this Section, the term Business Day shall mean a day that is a business day in the city to which such notice is transmitted. A copy of all notices sent by either party hereto shall be sent by such party to the Lender at the address set forth below concurrently with such notice being sent to the other party

Lessor: City of Louisville, Kentucky
601 West Jefferson Street
Louisville, Kentucky 40202
Attention: Mayor
Facsimile: (502) 574-4201
Telephone: (502) 574-3061

With copy to: David Morris
City of Louisville, Kentucky
601 West Jefferson Street
Louisville, Kentucky 40202
Facsimile: (502) 574-4215
Telephone: (502) 574-3348

Lessee: Churchill Downs Incorporated
700 Central Avenue
Louisville, Kentucky 40208-1200
Attention: Michael Miller
Senior Vice President Finance
Facsimile: (502) 638-3908
Telephone: (502) 636-3842

With a copy to: Rebecca C . Reed
Senior Vice President and General Counsel
Churchill Downs Incorporated
700 Central Avenue
Louisville, Kentucky 40208-1200
Facsimile: (502) 636-4439
Telephone: (502) 636-4429

Lender: Churchill Downs Investment Company
700 Central Avenue
Louisville, Kentucky 40208-1200
Attention: Robert L. Decker, President
Facsimile: (502) 636-4348
Telephone: (502) 636-4588

15. CONSTRUCTION OF LEASE. Words of any gender used in this Lease shall be held to include any other gender, and words in the singular number shall be held to include the plural, when the same requires. Wherever used herein, the words "Lessor" and "Lessee" shall be deemed to include the permitted successors, sublessees and assigns of the parties, unless the context excludes such construction.

16. CAPTIONS. The captions as to contents of particular sections or paragraphs herein are inserted only for convenience, and are in no way to be construed as part of this Lease or as a limitation on the scope of the particular sections or paragraphs to which they refer.

17. ASSIGNMENT/BINDING ON SUCCESSORS. This Lease may not be assigned by Lessor, unless such assignment or other action is required by law or is necessary to preserve Lessor's indemnification and other rights, except that this Lease may be assigned by Lessor to the Lender. Unless such assignment or other action is required by law or is necessary to preserve Lessor's indemnification and other rights, Lessor may not assign, encumber, sell, transfer or convey all or any part of its interest in the Leased Premises or any portion thereof, including, without limitation, placing any liens on its interest in the Leased Premises or any portion thereof.

If there is no default under the Loan Agreement, this Lease or Insurance Agreement, this Lease may be assigned, and/or the Leased Premises sublet in whole or in part, by Lessee without Lessor's consent to any reputable Person who agrees to assume and accept the duties of Lessee hereunder and under the Loan Agreement and Insurance Agreement. The term "reputable Person" shall include, without limitation, any present or future holders of or any participants in any Leasehold Mortgage on the leasehold interest hereunder or on the fee interest under the Existing Mortgage or any interest in the Tangible Personal Property under the Existing Security Agreement, and/or the designee(s) of any such holders and/or participants and/or any purchasers of such leasehold interest or such fee interest upon the foreclosure of, or by assignment in lieu of the foreclosure of, any such mortgage. All the provisions herein contained shall bind and inure to the benefit of the parties hereto, their successors and legal representatives and their permitted assigns.

Lessor and Lessee agree that any interest of Lessor under this Lease held by Lessor as of January 1, 2003 shall on such date and thereafter be deemed to be held by Louisville Jefferson County Metro Government, as statutory successor to Lessor.

Nothing in this Section 17 shall limit Lessee's right to lease suites, corporate boxes and other facilities constituting a portion of the Leased Premises in the normal course of Lessee's operation of the Leased Premises.

18. SHORT FORM LEASE. Either party shall, upon request of the other, execute in recordable form a short form lease for the purpose of recordation.

19. ESTOPPEL CERTIFICATES. Lessor will execute, acknowledge and deliver promptly upon request by Lessee, a certificate certifying (i) that this Lease is unmodified and in full force and effect (or, if there have been modifications, that this Lease is in full force and effect as

modified, stating the date of each instrument so modifying the Lease and having attached thereto a copy thereof), and (ii), without independent investigation, whether any default of Lessee known to it exists hereunder and, if any such default exists, specifying the nature and period of existence thereof and what action it is taking or proposes to take with respect thereto, and whether notice thereof has been given to Lessee. Lessor shall be entitled to rely upon certificates from Lender and Lessee exclusively in providing such certificate(s). Any such certificate may be relied upon by any prospective purchaser, pledgee, mortgagee or other transferee of Lessee's interest under this Lease, but shall be completely without prejudice as to rights of Lessor as to the existence of actual defaults.

20. CONSENT TO ADDITIONAL MORTGAGES. Provided that Lessee is not in default under this Lease, the Loan Agreement or the Insurance Agreement, to the extent Lessee advises Lessor that it is replacing the Existing Credit Agreement with another principal credit facility or credit facilities, or supplementing the Existing Credit Agreement with another principal credit facility or credit facilities, or replacing or supplementing any of the foregoing (collectively, the "Additional Credit Facilities") in favor of PNC Bank, National Association ("PNC") or other lenders (collectively, the "Additional Lenders"), Lessor agrees that it will (i) consent to Lessee's entry into additional leasehold mortgages with any Additional Lenders and agree to give such Additional Lenders reasonable notice of, and opportunity to cure, defaults of the Lessee hereunder or under the Loan Agreement and (ii) if required by such Additional Lenders, enter into (a) a non-recourse mortgage of the Lessor's interest in the Site and the Leased Premises to additionally secure Lessee's obligations to the Additional Lenders and (b) a non-recourse security agreement concerning Lessor's interest in the Tangible Personal Property to secure the

obligations of Lessee and any guarantors party to the Additional Credit Facilities to the Additional Lenders.

21. SEVERABILITY. If any provision of this Lease is invalid or unenforceable as to either of the parties, the remainder of this Lease shall not be affected thereby.

22. FURTHER ASSURANCES. Each party shall execute, acknowledge and deliver such documents and other instruments and perform such acts as may be reasonably required by the other party or the Lender, in order to give full effect to this Lease or to facilitate the recording of the short form of lease referred to in Section 18 above.

23. GOVERNING LAW. This Lease shall be governed by, and construed in accordance with, the laws of the Commonwealth of Kentucky applicable to agreements made in and to be performed wholly within such Commonwealth.

24. ENTIRE AGREEMENT. This Lease contains all of the agreements and conditions made between the parties hereto regarding the subject matter of this Lease and may not be modified orally or in any other manner than by an agreement in writing signed by all of the parties hereto or their respective successors in interest.

25. COUNTERPARTS. This Lease may be executed in counterparts, any one or series of which, when executed by all parties, shall be deemed one instrument.

26. MISCELLANEOUS. Notwithstanding anything to the contrary contained herein, Lessee shall have the right, without the consent of Lessor, to dispose of or make alterations and changes to the Leased Premises including furniture, fixtures and equipment thereon, so long as (i) such alterations or changes do not materially adversely affect the value of the Project as whole and (ii) such alterations or changes do not affect the status of the Project as an "industrial building" within the meaning of the Act.

27. NO PERSONAL LIABILITY. No officer, official, director, employee, agent or representative of, and no shareholder (in such capacity) or incorporator (in such capacity) of, any party hereto (or any partner in any such party which is a partnership) shall have any liability whatsoever under this Lease in connection with the transactions contemplated hereby, whether or not the transactions contemplated hereby are consummated in accordance with the terms hereof, provided, however, that nothing in this Section 27 shall diminish or impair the obligations of any party to this Lease, the Loan Agreement, the Insurance Agreement or any other Bond Document to which it is a party.

28. PREPAYMENT. Lessee shall have the right to cause Lessor to prepay the Bond in whole or in part, upon the written direction of Lessee, but solely with monies furnished to Lessor by Lessee.

29. OTHER LESSOR EXPENSES. Anything to the contrary herein notwithstanding, Lessee shall pay any reasonable expenses (including but not limited to reasonable attorney's fees and other charges of the Lessor) not specifically mentioned herein which are reasonably incurred by Lessor, after notice to Lessee, in connection with the Project, this Lease, the Loan Agreement, the Insurance Agreement, the Bond or the other Bond Documents.

30. LIMITATION OF LIABILITY OF LESSOR. In the event of any default by the Lessor hereunder and notwithstanding the provisions of Section 31 below, the liability of the Lessor to the Lessee shall be enforceable only out of Lessor's interest in the Project and under this Agreement and there shall be no other recourse for damages by the Lessee against the Lessor, its officers, members, agents and employees, or any of the property now or hereafter owned by it or them.

31. NO PERSONAL RECOURSE. No recourse shall be had for any claim based on (i) the

Lease, (ii) the Loan Agreement, (iii) the Bond, (iv) the Consent Waiver and Estoppel between the Lessor and PNC, or (v) the Leasehold Mortgage and Security Agreement between Lessee and PNC with a Joinder by the Lessor, against the Lessor or any member, officer or employee past, present or future, of the Lessor or of any successor body as such, either directly or through the Lessor or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or otherwise.

[Remainder of this Page Left Blank Intentionally]

IN WITNESS WHEREOF, Lessor and Lessee have executed this Lease on the date set forth below.

LESSOR:

THE CITY OF LOUISVILLE, KENTUCKY

By:/s/ DAVID L. ARMSTRONG
Name: David L. Armstrong
Title: Mayor
Date: DECEMBER 23, 2002

ATTESTED:

/s/ KATHLEEN J. HERRON
Clerk of the Board of Aldermen

LESSEE:

CHURCHILL DOWNS INCORPORATED

By:/s/ MICHAEL E. MILLER
Name: MICHAEL E. MILLER
Title: SENIOR VICE PRESIDENT, FINANCE
Date: DECEMBER 20, 2002

ACKNOWLEDGMENTS

COMMONWEALTH OF KENTUCKY)
 : ss.:
COUNTY OF JEFFERSON)

The foregoing instrument was acknowledged before me on December 23, 2002 by David L. Armstrong and Kathy Herron, as the Mayor and Clerk of the Board of Aldermen, respectively, of the City of Louisville, Kentucky, a municipality and political subdivision of the Commonwealth of Kentucky, on behalf of said City.

My commission expires:SEPTEMBER 25, 2004.

(SEAL)

/s/ BRENDA K. LIVESAY
Notary Public

COMMONWEALTH OF KENTUCKY)
 : ss.:
COUNTY OF JEFFERSON)

The foregoing instrument was acknowledged before me on December 20, 2002 by Michael E. Miller, as the Senior Vice President, Finance of Churchill Downs Incorporated, a Kentucky corporation.

My commission expires:SEPTEMBER 6, 2006.

(SEAL)

/s/ SUE CARWILE
Notary Public

EXHIBIT A omitted consisting of a legal description of the property. The registrant will supplementally provide a copy of such exhibit to the Commission upon request.

Contact: Mike Ogburn
(502)636-4415 (office)
(502)262-0224 (cellular)
mogburn@kyderby.com

EXHIBIT 99

CHURCHILL DOWNS INCORPORATED COMPLETES
FINANCIAL TRANSACTION WITH CITY OF LOUISVILLE

LOUISVILLE, KY. (DEC. 26, 2002) - Churchill Downs Incorporated ("CDI") (Nasdaq: CHDN) today announced the consummation of the financing transaction with the City of Louisville (the "City") that was approved by the City's Board of Aldermen in July 2002. The transaction is related to the capital program currently undertaken by CDI to renovate its flagship racetrack, Churchill Downs.

The terms of the financing include the conveyance of the racetrack property to the City, coupled with a simultaneous lease back to the Company. Under the lease, the Company retains full enjoyment of the property and has the right to reacquire the property at any time during the period of financing.

Churchill Downs Incorporated ("CDI"), headquartered in Louisville, Ky., owns and operates world-renowned horse racing venues throughout the United States. The Company's racetracks in California, Florida, Illinois, Indiana and Kentucky host 115 graded-stakes events and many of North America's most prestigious races, including the Kentucky Derby and Kentucky Oaks, Hollywood Gold Cup and Arlington Million. CDI racetracks have hosted nine Breeders' Cup World Thoroughbred Championships - more than any other North American racing company. CDI also owns off-track betting facilities and has interests in various television production, telecommunications and racing services companies that support CDI's network of simulcasting and racing operations. CDI trades on the Nasdaq National Market under the symbol CHDN and can be found on the Internet at WWW.CHURCHILLDOWNSINCORPORATED.COM.