

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from ____ to ____

Commission file number 0-1469

CHURCHILL DOWNS INCORPORATED

(Exact name of registrant as specified in its charter)

Kentucky

(State or other jurisdiction of incorporation or
organization)

61-0156015

(IRS Employer Identification No.)

700 Central Avenue, Louisville, KY 40208

Address of principal executive offices)
(Zip Code)

(502) 636-4400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

The number of shares outstanding of registrant's common stock at August 14, 2001 was 13,097,999 shares.

1

CHURCHILL DOWNS INCORPORATED
I N D E X

PART I. FINANCIAL INFORMATION	PAGES
ITEM 1. Financial Statements	
Condensed Consolidated Balance Sheets, June 30, 2001, December 31, 2000 and June 30, 2000	3
Condensed Consolidated Statements of Earnings for the six and three months ended June 30, 2001 and 2000	4
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2001 and 2000	5

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS	June 30, <u>2001</u> (unaudited)	December 31, <u>2000</u>	June 30, <u>2000</u> (unaudited)
Current assests:			
Cash and cash equivalents	\$ 22,515	\$ 10,807	\$ 21,931
Restricted cash	18,455	9,006	30,438
Accounts receivable, net	43,083	32,535	24,176
Other current assets	<u>5,365</u>	<u>2,932</u>	<u>3,741</u>
Total current assets	89,418	55,280	80,286
Other assets	9,313	8,116	6,988
Plant and equipment, net	343,402	342,767	275,692
Intangible assets, net	<u>62,653</u>	<u>63,841</u>	<u>61,216</u>
	<u>\$504,786</u>	<u>\$470,004</u>	<u>\$424,182</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 73,490	\$ 34,894	\$ 50,462
Accrued expenses	34,991	30,617	22,230
Dividends payable	-	6,508	-
Income taxes payable	6,517	1,091	5,990
Deferred revenue	4,052	11,353	2,334
Long-term debt, current portion	<u>2,461</u>	<u>2,324</u>	<u>2,904</u>
Total current liabilities	121,511	86,787	83,920
Long-term debt, due after one year	143,036	155,716	166,658
Other liabilities	12,475	9,837	11,001

Deferred income taxes	15,133	15,179	14,920
Commitments and contingencies	-	-	-
Shareholders' equity:			
Preferred stock, no par value; 250 shares authorized; no shares issued	-	-	-
Common stock, no par value; 50,000 shares authorized; issued: 13,084 shares June 30, 2001, 13,019 shares December 31, 2000, and 9,854 shares June 30, 2000	124,485	123,227	71,634
Retained earnings	90,258	79,323	76,172
Accumulated other comprehensive income	(2,047)	-	-
Deferred compensation costs	-	-	(58)
Note receivable for common stock	<u>(65)</u>	<u>(65)</u>	<u>(65)</u>
	<u>\$212,631</u>	<u>\$202,485</u>	<u>\$147,683</u>
	<u>\$504,786</u>	<u>\$470,004</u>	<u>\$424,182</u>

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

3

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
for the six and three months ended June 30, 2001 and 2000
(Unaudited)
(In thousands, except per share data)

	<u>Six Months Ended</u>		<u>Three Months Ended</u>	
	<u>June 30,</u>		<u>June 30,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Net revenues	\$194,972	\$158,103	\$163,257	\$132,184
Operating expenses	<u>154,065</u>	<u>121,873</u>	<u>114,802</u>	<u>90,505</u>
Gross Profit	40,907	36,230	48,455	41,679
Selling, general and administrative expenses	<u>15,948</u>	<u>12,282</u>	<u>8,032</u>	<u>6,191</u>
Operating Income	<u>24,959</u>	<u>23,948</u>	<u>40,423</u>	<u>35,488</u>
Other income (expense):				
Interest income	332	506	219	240
Interest expense	(6,956)	(7,671)	(3,441)	(3,920)
Miscellaneous, net	<u>43</u>	<u>(416)</u>	<u>(88)</u>	<u>(458)</u>
	<u>(6,581)</u>	<u>(7,581)</u>	<u>(3,310)</u>	<u>(4,138)</u>
Earnings before provision for income taxes	18,378	16,367	37,113	31,350
Provision for income taxes	<u>(7,443)</u>	<u>(6,792)</u>	<u>(15,218)</u>	<u>(13,010)</u>
Net earnings	<u>\$ 10,935</u>	<u>\$ 9,575</u>	<u>\$ 21,895</u>	<u>\$ 18,340</u>
Earnings per common share data:				
Basic	\$0.84	\$0.97	\$1.67	\$1.86
Diluted	\$0.83	\$0.97	\$1.66	\$1.85
Weighted average shares outstanding:				
Basic	13,065	9,854	13,084	9,854
Diluted	13,185	9,908	13,217	9,906

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

4

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the six and three months ended June 30,
(Unaudited)
(In thousands)

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Net earnings	\$ 10,935	\$ 9,575
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization, including amortization of loan origination costs classified as interest expense of \$305 in 2001 and 2000	10,100	8,268
Deferred compensation	-	58
Deferred income taxes	197	172
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Restricted cash	(9,449)	(30,438)
Accounts receivable	(10,548)	103
Other current assets	(1,373)	(1,067)
Accounts payable	38,596	27,449
Accrued expenses	1,504	6,628
Income taxes payable	5,426	5,654
Deferred revenue	(7,301)	(8,525)
Other assets and liabilities	<u>955</u>	<u>343</u>
Net cash provided by operating activities	<u>39,042</u>	<u>18,220</u>
Cash flows from investing activities:		
Additions to plant and equipment, net	(9,541)	(13,502)
Proceeds from the sale of Training Facility assets	<u>-</u>	<u>4,969</u>
Net cash used in investing activities	<u>(9,541)</u>	<u>(8,533)</u>
Cash flows from financing activities:		
Increase in long-term debt, net	9	2,111
Borrowings on bank line of credit	121,739	15,000
Repayments of bank line of credit	(134,291)	(29,000)
Payment of dividends	(6,508)	(4,927)
Common stock issued	<u>1,258</u>	<u>-</u>
Net cash used in financing activities	<u>(17,793)</u>	<u>(16,816)</u>
Net increase (decrease) in cash and cash equivalents	11,708	(7,129)
Cash and cash equivalents, beginning of period	<u>10,807</u>	<u>29,060</u>
Cash and cash equivalents, end of period	<u>\$ 22,515</u>	<u>\$ 21,931</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 6,555	\$ 7,420
Income taxes	\$ 1,740	\$ 1,117

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

CHURCHILL DOWNS INCORPORATED
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 2001 and 2000 (Unaudited)
(\$ in thousands, except per share data)

1. Basis of Presentation

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States or those normally made in Churchill Downs Incorporated's (the "Company") annual report on Form 10-K. The year end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. 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, 2000 for further information. The accompanying condensed consolidated financial statements have been prepared in accordance with the registrant's customary accounting practices and have not been audited. Certain prior period financial statement amounts have been reclassified to conform to the current period presentation. In the opinion of management, all adjustments necessary for a fair presentation of this information have been made and all such adjustments are of a normal recurring nature.

Because of the seasonal nature of our business and recent merger activity, revenues and operating results for any interim quarter are likely 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 accompanying condensed consolidated financial statements reflect a disproportionate share of annual net earnings as we normally earn a substantial portion of our net earnings in the second and third quarters of each year during which all our operations are open for some or all of this period and the Kentucky Derby and Kentucky Oaks are run.

2. Long-Term Debt

The Company has a \$250 million line of credit under a revolving loan facility through a syndicate of banks to meet working capital and other short-term requirements and to provide funding for acquisitions. The interest rate on the borrowing is based upon LIBOR plus 75 to 250 additional basis points, which is determined by certain Company financial ratios. The weighted average interest rate was 6.23% on the outstanding balance at June 30, 2001, before consideration of the impact of the Company's interest rate swap contracts. There was \$140.6 million outstanding on the line of credit at June 30, 2001, compared to \$153.2 million outstanding at December 31, 2000, and \$164.0 million outstanding at June 30, 2000. The line of credit is collateralized by substantially all of the assets of the Company and its wholly owned subsidiaries, and matures in 2004.

CHURCHILL DOWNS INCORPORATED
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 2001 and 2000 (Unaudited)
(\$ in thousands, except per share data)

3. Financial Instruments

In order to mitigate a portion of the market risk on its variable rate debt, the Company has entered into interest rate swap contracts with major financial institutions. Under terms of these separate contracts we receive a LIBOR based variable interest rate and pay a fixed interest rate of 7.015% and 7.30% on notional amounts of \$35.0 million each which mature in March 2003 and May 2002, respectively. The Company has also entered into a contract which pays a fixed interest rate of 6.40% on a notional amount of \$30.0 million and matures in November 2002. The variable interest rate paid on the contracts is determined based on LIBOR on the last day of each month, which is consistent with the variable rate determination on the underlying debt.

Effective January 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Financial Instruments and Hedging Activities" (SFAS 133) which establishes accounting and reporting standards requiring that every derivative financial instrument be recorded on the balance sheet at its fair value. The statement further requires that the gains and losses related to changes in the fair value of the derivative financial instruments be recorded in the income statement unless certain hedge criteria are met. Gains and losses for qualifying hedges can be deferred in accumulated other comprehensive income and recognized in the income statement along with the related results of the hedged item. The statement requires that the Company formally document, designate and assess the effectiveness of such transactions in order to qualify for such hedge accounting treatment.

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

The Company recorded a cumulative-effect-type deferred net loss adjustment of \$0.6 million in accumulated other comprehensive income to recognize the fair value of these swaps upon adoption of SFAS 133 on January 1, 2001. The Company expects to reclassify approximately \$0.2 million of the January 1, 2001 net loss from accumulated other comprehensive income into net income as interest expense, net before December 31, 2001. The Company also expects to reclassify approximately \$1.2 million of the March 31, 2001 net loss of \$2.1 million recorded in accumulated other comprehensive income into net income as interest expense, net over the next twelve months.

Comprehensive income consists of the following:

	Six months ended June 30,		Three months ended June 30,	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Net earnings	\$10,935	\$ 9,575	\$21,895	\$18,340
Cash flow hedging (net of related tax benefit of \$1,303 for the	_(2,047)	-	97	-

six months ended in 2001 and tax provision of \$62 for the three months ended in 2001)

Comprehensive income	<u>\$ 8,888</u>	<u>\$ 9,575</u>	<u>\$21,992</u>	<u>\$18,340</u>
----------------------	-----------------	-----------------	-----------------	-----------------

CHURCHILL DOWNS INCORPORATED
 CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 for the six months ended June 30, 2001 and 2000 (Unaudited)
 (\$ in thousands, except per share data)

4. Acquisitions and Other Transactions

On September 8, 2000, three of the Company's wholly owned subsidiaries merged with Arlington International Racecourse, Inc., Arlington Management Services, Inc. and Turf Club of Illinois, Inc. (collectively referred to as "Arlington Park"). The Company issued 3.15 million shares of its common stock, with a fair value of \$51.3 million, to Duchossois Industries, Inc. ("DII") and could issue up to an additional 1.25 million shares of common stock dependent upon the opening of the riverboat casino at Rosemont, Illinois, and the amount of subsidies received by Arlington Park as a result thereof. The purchase price was recorded based upon the fair value of shares issued to DII at the announcement of the mergers on June 23, 2000, plus the estimated fair value of liabilities assumed and approximately \$2.2 million in merger-related costs. The acquired tangible and intangible assets of \$81.5 million and assumed liabilities of \$28.0 million of Arlington Park were recorded at their estimated fair values as of the merger date. The allocation of the purchase price may require adjustment in the Company's future financial statements based on a final determination of the fair value of certain liabilities assumed in the merger. The Company also earned \$5.8 million in management fees related to the Arlington Park management contract that was in effect from July 1 through the closing of the Arlington Park merger on September 8, 2000. The merger was accounted for by the Company as an asset purchase and, accordingly, the financial position and results of operations of Arlington Park have been included in the Company's consolidated financial statements since the date of merger.

Following are the unaudited pro forma results of operations as if the September 8, 2000 merger with Arlington Park had occurred on January 1, 2000:

	Six Months Ended <u>June 30, 2000</u>
Net revenues	\$194,470
Net earnings	8,698
Earnings per common share:	
Basic	0.67
Diluted	0.67
Weighted average shares	
Basic	13,004
Diluted	13,005

This unaudited pro forma financial information is not necessarily indicative of the operating results that would have occurred had the transactions been consummated as of January 1, 2000, nor is it necessarily indicative of future operating results.

CHURCHILL DOWNS INCORPORATED
 CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 for the six months ended June 30, 2001 and 2000 (Unaudited)
 (\$ in thousands, except per share data)

5. Earnings Per Share

The following is a reconciliation of the numerator and denominator of the basic and diluted per share computations:

	Six months <u>ended June 30,</u>		Three months <u>ended June 30,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Net earnings (numerator amounts used for basic and diluted per share computations:	<u>\$10,935</u>	<u>\$ 9,575</u>	<u>\$21,895</u>	<u>\$18,340</u>

Weighted average shares (denominator) of common stock outstanding per share:

Basic	13,065	9,854	13,084	9,854
Plus dilutive effect of stock options	<u>120</u>	<u>54</u>	<u>133</u>	<u>52</u>
Diluted	13,185	9,908	13,217	9,906
Earnings per common share:				
Basic	\$0.84	\$0.97	\$1.67	\$1.86
Diluted	\$0.83	\$0.97	\$1.66	\$1.85

Options to purchase approximately 64 and 74 shares for the periods ending June 30, 2001 and 2000, respectively, were not included in the computation of earnings per common share-assuming dilution because the options' exercise prices were greater than the average market price of the common shares.

CHURCHILL DOWNS INCORPORATED
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 2001 and 2000 (Unaudited)
(\$ in thousands, except per share data)

6. Segment Information

The Company has determined that it currently operates in the following seven segments: (1) Churchill Downs racetrack and its off-track betting ("OTB") facility (2) Hollywood Park racetrack and its on-site simulcast facility (3) Calder Race Course (4) Arlington Park and its OTBs (5) Ellis Park racetrack and its on-site simulcast facility (6) Hoosier Park racetrack and its on-site simulcast facility and the other three Indiana OTBs and (7) other investments, including Charlson Broadcast Technologies LLC and the Company's other various equity interests, which are not material. Eliminations include the elimination of management fees and other intersegment transactions.

Most of the Company's recurring revenues are generated from commissions on pari-mutuel wagering at the Company's racetracks and OTBs, plus simulcast fees, Indiana riverboat admissions subsidy revenue, admissions, concessions revenue, sponsorship revenues, licensing rights and broadcast fees, lease income and other sources.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" in the Company's annual report to stockholders for the year ended December 31, 2000. Earnings before interest, taxes, depreciation and amortization ("EBITDA") should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with accounting principles generally accepted in the United States of America) as a measure of our operating results or cash flows (as determined in accordance with accounting principles generally accepted in the United States of America) or as a measure of our liquidity.

CHURCHILL DOWNS INCORPORATED
 CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 for the six months ended June 30, 2001 and 2000 (Unaudited)
 (\$ in thousands, except per share data)

6. Segment Information (cont'd)

The table below presents information about reported segments for the six months and three months ended June 30, 2001 and 2000:

	<u>Six Months Ended June 30,</u>		<u>Three Months Ended June 30,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Net revenues:				
Churchill Downs	\$ 68,186	\$ 64,678	\$ 63,937	\$ 60,121
Hollywood Park	54,867	50,879	49,378	45,120
Arlington Park	27,661	-	21,269	-
Calder Race Course	14,180	13,669	12,858	11,792
Hoosier Park	26,318	24,217	13,885	13,032
Ellis Park	3,016	3,202	1,593	1,616
Other investments	<u>2,683</u>	<u>3,514</u>	<u>1,768</u>	<u>2,207</u>
	196,911	160,159	164,688	133,888
Corporate revenues	863	605	862	592
Eliminations	<u>(2,802)</u>	<u>(2,661)</u>	<u>(2,293)</u>	<u>(2,296)</u>
	<u>\$194,972</u>	<u>\$158,103</u>	<u>\$163,257</u>	<u>\$132,184</u>
EBITDA:				
Churchill Downs	\$ 26,376	\$ 23,863	\$ 30,090	\$ 27,393
Hollywood Park	11,246	9,472	12,781	11,093
Arlington Park	(108)	-	1,440	-
Calder Race Course	(830)	(745)	1,575	1,284
Hoosier Park	3,151	3,442	1,434	1,555
Ellis Park	(1,327)	(1,047)	(724)	(656)
Other investments	<u>848</u>	<u>700</u>	<u>620</u>	<u>565</u>
	39,356	35,685	47,216	41,234
Corporate expenses	<u>(4,559)</u>	<u>(4,189)</u>	<u>(2,011)</u>	<u>(2,181)</u>
	<u>\$ 34,797</u>	<u>\$ 31,496</u>	<u>\$ 45,205</u>	<u>\$ 39,053</u>
Operating income (loss):				
Churchill Downs	\$ 24,202	\$ 22,003	\$ 29,000	\$ 26,456
Hollywood Park	8,678	7,315	11,482	9,995
Arlington Park	(1,217)	-	886	-
Calder Race Course	(2,578)	(2,527)	725	392
Hoosier Park	2,360	2,778	1,039	1,222
Ellis Park	(1,994)	(1,769)	(1,038)	(1,018)
Other investments	<u>67</u>	<u>(24)</u>	<u>335</u>	<u>261</u>
	29,518	27,776	42,429	37,308
Corporate expenses	<u>(4,559)</u>	<u>(3,828)</u>	<u>(2,006)</u>	<u>(1,820)</u>
	<u>\$ 24,959</u>	<u>\$ 23,948</u>	<u>\$ 40,423</u>	<u>\$ 35,488</u>

CHURCHILL DOWNS INCORPORATED
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 2001 and 2000 (Unaudited)
(\$ in thousands, except per share data)

6. Segment Information (cont'd)

	As of <u>June 30, 2001</u>	As of <u>December 31, 2000</u>	As of <u>June 30, 2000</u>
Total assets:			
Churchill Downs	\$387,212	\$358,081	\$ 365,223
Hollywood Park	200,219	174,232	181,294
Calder Race Course	107,919	127,666	104,839
Arlington Park	83,716	74,554	-
Hoosier Park	36,221	32,718	36,235
Ellis Park	16,801	21,381	23,898
Other investments	<u>46,362</u>	<u>45,390</u>	<u>303,567</u>
	878,450	834,022	1,015,056
Eliminations	<u>(373,664)</u>	<u>(364,018)</u>	<u>(590,874)</u>
	<u>\$504,786</u>	<u>\$470,004</u>	<u>\$ 424,182</u>

Following is a reconciliation of total EBITDA to income before provision for income taxes:

(in thousands)	Six Months <u>ended June 30,</u>		Three Months <u>ended June 30,</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Total EBITDA	\$34,797	\$31,496	\$45,205	\$39,053
Depreciation and amortization	(9,795)	(7,964)	(4,870)	(4,023)
Interest income (expense), net	<u>(6,624)</u>	<u>(7,165)</u>	<u>(3,222)</u>	<u>(3,680)</u>
Earnings before provision for income taxes	<u>\$18,378</u>	<u>\$16,367</u>	<u>\$37,113</u>	<u>\$31,350</u>

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

Information set forth in this discussion and analysis contain various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. These statements represent our judgment concerning the future and are subject to risks and uncertainties that could cause our actual operating results and financial condition to differ materially. Forward-looking statements are typically identified by the use of terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "should," "will," and similar words, although some forward-looking statements are expressed differently. Although we believe that the expectations reflected in such forward-looking statements are reasonable we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations include: the financial performance of our racing operations; the impact of gaming competition (including lotteries and riverboat, cruise ship and land-based casinos) and other sports and entertainment options in those markets in which we operate; a substantial change in law or regulations affecting our pari-mutuel activities; a substantial change in allocation of live racing days; litigation surrounding the Rosemont, Illinois, riverboat casino; changes in Illinois law that impact revenues of racing operations in Illinois; a decrease in riverboat admissions subsidy revenue

from our Indiana operations; the impact of an additional racetrack near our Indiana operations; our continued ability to effectively compete for the country's top horses and trainers necessary to field high-quality horse racing; our continued ability to grow our share of the interstate simulcast market; the impact of interest rate fluctuations; our ability to execute our acquisition strategy and to complete or successfully operate planned expansion projects; the economic environment; our ability to adequately integrate acquired businesses; market reaction to our expansion projects; the loss of our totalisator companies or their inability to keep their technology current; our accountability for environmental contamination; the loss of key personnel and the volatility of our stock price.

You should read this discussion with the financial statements included in this report and the Company's Form 10-K for the period ended December 31, 2000, for further information.

Overview

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

We own and operate the Churchill Downs racetrack in Louisville, Kentucky, which has conducted Thoroughbred racing since 1875 and is internationally known as the home of the Kentucky Derby. We also own and operate Hollywood Park, a Thoroughbred racetrack in Inglewood, California; Arlington Park, a Thoroughbred racetrack in Arlington Heights, Illinois; Calder Race Course, a Thoroughbred racetrack in Miami, Florida; and Ellis Park, a Thoroughbred racetrack in Henderson, Kentucky. Additionally, we are the majority owner and operator of Hoosier Park in Anderson, Indiana, which conducts Thoroughbred, Quarter Horse and Standardbred horse racing. We conduct simulcast wagering on horse racing at nine off-track betting (OTB) facilities in Kentucky, Indiana and Illinois, as well as at our six racetracks.

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

Because of the seasonal nature of our business and recent acquisitions and merger activity, revenues and operating results for any interim quarter are likely 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. We normally earn a substantial portion of our net earnings in the second and third quarters of each year during which all our operations are open for some or all of this period and the Kentucky Derby and the Kentucky Oaks are run.

Our revenues are generated from commissions on pari-mutuel wagering at our racetracks and OTB facilities, plus simulcast fees, Indiana riverboat admissions subsidy revenue, admissions, concessions revenue, sponsorship revenues, licensing rights and broadcast fees, lease income and other sources.

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

RESULTS OF OPERATIONS

Pari-mutuel wagering information, including intercompany transactions, for our six live racing facilities and nine separate OTBs, which are included in their respective racetracks, during the six months ended June 30, 2001 and 2000 is as follows (\$ in thousands):

	<u>Churchill Downs</u>	<u>Hollywood Park</u>	<u>Calder Race Course</u>	<u>Arlington Park*</u>	<u>Hoosier Park</u>	<u>Ellis Park</u>
Live Racing						
2001 handle	\$86,554	\$109,201	\$34,902	\$9,607	\$6,094	-
2001 no. of days	46	54	30	14	83	-
2000 handle	\$90,856	\$100,240	\$33,838	-	\$4,814	-
2000 no. of days	45	46	29	-	61	-
Export simulcasting						
2001 handle	\$384,924	\$412,556	\$84,938	\$30,287	\$20,039	-
2001 no. of days	46	54	30	14	83	-
2000 handle	\$354,265	\$374,889	\$86,134	-	\$14,494	-
2000 no. of days	45	46	29	-	61	-
Import simulcasting						
2001 handle	\$46,051	\$102,525	-	\$161,547	\$68,242	\$21,887
2001 no. of days	101	134	-	181	593	166
2000 handle	\$51,107	\$120,517	-	-	\$72,013	\$23,179
2000 no. of days	104	129	-	-	597	181
Number of OTBs	1	-	-	5	3	-
Totals						
2001 handle	\$517,529	\$624,282	\$119,840	\$201,441	\$94,375	\$21,887
2000 handle	\$496,228	\$595,646	\$119,972	-	\$91,321	\$23,179

* Pari-mutuel wagering information for Arlington Park represents amounts wagered since the September 8, 2000 merger date.

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

Six Months Ended June 30, 2001 Compared to Six Months Ended June 30, 2000

Net Revenues

Net revenues during the six months ended June 30, 2001 increased \$36.9 million (23%) from \$158.1 million in 2000 to \$195.0 million in 2001. Arlington Park contributed \$27.7 million to 2001 net revenues due to the timing of the September 8, 2000 merger. Churchill Downs racetrack revenues increased \$3.5 million primarily due to increased pari-mutuel wagering, corporate sponsor

event ticket prices and admissions and seat revenue for Kentucky Oaks and Kentucky Derby days. Hollywood Park revenues increased \$4.0 million primarily as a result of increased pari-mutuel revenues due to an increase in the number of live racing days.

Operating Expenses

Operating expenses increased \$32.2 million (26%) from \$121.9 million in 2000 to \$154.1 million in 2001 primarily as a result of Arlington Park's 2001 operating expenses of \$24.9 million. Hollywood Park operating expenses increased \$2.7 million primarily due to an increase in purses, consistent with the increase in pari-mutuel revenues.

Gross Profit

Gross profit increased \$4.7 million from \$36.2 million in 2000 to \$40.9 million in 2001. The increase in gross profit was primarily the result of the merger with Arlington Park and the increase in gross profit for Churchill Downs racetrack and Hollywood Park as a result of the revenue increases described above.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by \$3.6 million (30%) from \$12.3 million in 2000 to \$15.9 million in 2001. This is primarily the result of the 2000 merger with Arlington Park resulting in SG&A expenses of \$2.9 million.

Other Income and Expense

Interest expense decreased \$0.7 million from \$7.7 million in 2000 to \$7.0 million in 2001 primarily due to the use of available cash to pay down our line of credit, as well as a reduction in the interest rate spread charged within the revolving loan facility resulting from the improvement in leverage ratios.

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

Income Tax Provision

The increase in the income tax provision of \$0.6 million for the six months ended June 30, 2001 as compared to June 30, 2000 is primarily a result of an increase in pre-tax earnings off-set by a decline in the Company's effective income tax rate from 41.5% in 2000 to 40.5% in 2001.

Three Months Ended June 30, 2001 Compared to Three Months Ended June 30, 2000

Net Revenues

Net revenues during the three months ended June 30, 2001 increased \$31.1 million (24%) from \$132.2 million in 2000 to \$163.3 million in 2001. Arlington Park contributed \$21.3 million in net revenues for the quarter. Churchill Downs racetrack revenues increased \$3.8 million primarily due to \$1.3 million of increased pari-mutuel wagering, and an increase in corporate sponsor event ticket prices and admissions revenue on Kentucky Oaks and Kentucky Derby days. Hollywood Park revenues increased \$4.3 million primarily as a result of increased pari-mutuel revenues due to an increase in the number of live racing days.

Operating Expenses

Operating expenses increased \$24.3 million (27%) from \$90.5 million in 2000 to \$114.8 million in 2001. Arlington Park incurred 2001 operating expenses of \$19.1 million. Churchill Downs racetrack and Hollywood Park operating expenses increased \$1.3 million and \$2.8 million, respectively, primarily due to increases in purses, consistent with increases in pari-mutuel wagering revenues.

Gross Profit

Gross profit increased \$6.8 million from \$41.7 million in 2000 to \$48.5 million in 2001. The increase in gross profit was primarily the result of the inclusion of Arlington Park and the increase in gross profit for Churchill Downs racetrack and Hollywood Park as a result of the revenue increases described above.

Selling, General and Administrative Expenses

SG&A expenses increased by \$1.8 million (30%) from \$6.2 million in 2000 to \$8.0 million in 2001 primarily due to SG&A expenses of \$1.3 million for Arlington Park.

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

Other Income and Expense

Interest expense decreased \$0.5 million from \$3.9 million in 2000 to \$3.4 million in 2001 primarily due to the use of available cash to pay down our line of credit, as well as a reduction in the interest rate spread charged within the revolving loan facility resulting from the improvement in leverage ratios.

Income Tax Provision

Our income tax provision increased by \$2.2 million for the three months ended June 30, 2001 as compared to June 30, 2000 primarily as a result of an increase in pre-tax earnings off-set by a decline in the Company's effective income tax rate from 41.5% in 2000 to 41.0% in 2001.

Significant Changes in the Balance Sheet June 30, 2001 to December 31, 2000

Restricted cash increased \$9.4 million as a result of an increase in deposit amounts due to horsemen for purses, stakes and awards due to the timing of live racing at Calder Race Course and Hollywood Park.

Account Receivable increased \$10.5 million primarily due to the timing of payments received related to Churchill Downs racetrack, Hollywood Park and Arlington Park's live race meets.

Accounts payable increased \$38.6 million at June 30, 2001 primarily due to increases in purses payable and other expenses related to the operation of live racing at Churchill Downs racetrack, Hollywood Park, Arlington Park and Hoosier Park.

Dividends payable decreased \$6.5 million at June 30, 2001 as a result of the payment of dividends of \$6.5 million (declared in 2000) in the first quarter of 2001.

Income taxes payable increased by \$5.4 million at June 30, 2001 representing the estimated income tax expense attributed to income generated in the six months of 2001.

Deferred revenue decreased \$7.3 million at June 30, 2001, primarily due to the significant amount of admission and seat revenue that was received prior to December 31, 2000 recognized as income in May 2001 for the Kentucky Derby and Kentucky Oaks race days.

The long-term debt decrease of \$12.7 million was the result of the application of current cash flow to reduce borrowings under our bank line of credit during 2001.

Significant Changes in the Balance Sheet June 30, 2001 to June 30, 2000

Accounts receivable increased \$18.9 million at June 30, 2001. The merger with Arlington Park increased accounts receivable by \$4.7 million. The remaining increase was primarily due to the timing of payments received for simulcast receivables for Churchill Downs racetrack, Hollywood Park and Calder Race Course.

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

Net plant and equipment increased \$67.7 million primarily as a result of the merger with Arlington Park. Additional increases were due to capital spending at the other operating units offset by depreciation.

The accounts payable increase of \$23.0 million was primarily due to the merger with Arlington Park which represents \$15.6 million of the increase. The additional \$7.4 million increase was primarily due to the timing of payments for horsemen-related and simulcast payables for Churchill Downs racetrack and Calder Race Course live racing meets.

Accrued expenses increased \$12.8 million primarily due to the merger with Arlington Park, which represents \$11.2 million of the increase.

The long-term debt net decrease of \$23.6 million was the result of the application of current cash flow to reduce borrowings under our bank line of credit during 2001.

Common stock increased by \$52.9 million primarily due to the issuance of 3.15 million shares of common stock to complete the merger with Arlington Park during the third quarter of 2000.

Liquidity and Capital Resources

The change in working capital between June 30, 2001 and 2000 is a result of the Arlington Park merger as well as the use of internally generated funds to reduce long-term debt. Cash flows provided by operations were \$39.0 million and \$18.2 million for the six months ended June 30, 2001 and 2000, respectively. The net increase in cash provided by operations as compared to 2000 is primarily a result of the separate classification of restricted assets since the second quarter of 2000. Restricted assets represent refundable deposits and amounts due to horsemen for purses, stakes and awards. Management believes cash flows from operations and available borrowings during 2001 will be sufficient to fund our cash requirements for the year, including capital improvements and future acquisitions.

Cash flows used in investing activities were \$9.5 million and \$8.5 million for the six months ended June 30, 2001 and 2000, respectively. Capital spending of \$9.5 million in 2001 is \$4.0 million less than 2000 and is primarily the result of the expansion of Churchill Downs' main entrance and corporate offices completed during 2000.

Cash flows used in financing activities were \$17.8 million and \$16.8 million for the six months ended June 30, 2001 and 2000, respectively. We borrowed \$121.7 million and repaid \$134.3 million on our line of credit during 2001.

We have a \$250 million line of credit under a revolving loan facility, of which \$140.6 million was outstanding at June 30, 2001. This line of credit is secured by substantially all of our assets and matures in 2004. This credit facility is intended to meet working capital and other short-term requirements and to provide funding for future acquisitions.

CHURCHILL DOWNS INCORPORATED

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

Impact of Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (FAS No. 141), "Business Combinations," which provides that all business combinations should be accounted for using the purchase method of accounting and establishes criteria for the initial recognition and measurement of goodwill and other intangible assets recorded in connection with a business combination. The provisions of FAS 141 apply to all business combinations initiated after June 30, 2001 and to all business combinations accounted for by the purchase method that are completed after June 30, 2001, or later. The Company will apply the provisions of FAS 141 to any future business combinations.

In addition, the FASB issued Statement of Financial Accounting Standards No. 142 (FAS 142), "Goodwill and Other Intangible Assets," which establishes the accounting for goodwill and other intangible assets following their recognition. FAS 142 applies to all goodwill and other intangible assets whether acquired singly, as part of a group, or in a business combination. FAS 142 provides that goodwill should not be amortized but should be tested for impairment annually using a fair-value based approach. In addition, FAS 142 provides that other intangible assets other than goodwill should be amortized over their useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." FAS 142 is effective for the Company beginning on January 1, 2002. Upon adoption, the Company will be required to perform a transitional impairment test under FAS 142 for all goodwill recorded as of January 1, 2002. Any impairment loss recorded as a result of completing the transitional impairment test will be treated as a change in accounting principle. The impact of the adoption of FAS 142 on the Company's results of operations for all periods beginning on or after January 1, 2002 will be to eliminate amortization of goodwill. Management of the Company is currently analyzing the impact of FAS 142 and cannot estimate the impact of the adoption of FAS 142 as of January 1, 2002 at this time.

CHURCHILL DOWNS INCORPORATED

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

At June 30, 2001, we had \$140.6 million of debt outstanding under our revolving loan facility, which bears interest at LIBOR based variable rates. We are exposed to market risk on variable rate debt due to potential adverse changes in the LIBOR rate. Assuming the outstanding balance on the revolving loan facility remains constant, a one percentage point increase in the LIBOR rate would reduce annual pre-tax earnings and cash flows by \$1.4 million.

In order to mitigate a portion of the market risk associated with our variable rate debt, we have entered into interest rate swap contracts with major financial institutions. Under terms of these separate contracts we receive a LIBOR based variable interest rate and pay a fixed interest rate of 7.015% and 7.30% on notional amounts of \$35.0 million each, which mature in March 2003 and May 2002, respectively. We have also entered into a contract in which we pay a fixed interest rate of 6.40% on a notional amount of \$30.0 million which matures in November 2002. Assuming the June 30, 2001 notional amounts under the interest rate swap contracts remain constant, a one percentage point increase in the LIBOR rate would increase annual pre-tax earnings and cash flows by \$1.0 million.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Not Applicable

ITEM 2. Changes in Securities and Use of Proceeds

Not Applicable

ITEM 3. Defaults Upon Senior Securities

Not Applicable

ITEM 4. Submission of Matters to a Vote of Security Holders

The registrant's 2001 Annual Meeting of Shareholders was held on June 21, 2001. 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:

<u>Class II Director</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Richard L. Duchossois	12,206,015	35,796
J. David Grissom	12,223,509	18,302
Seth W. Hancock	12,200,171	41,640
Frank B. Hower, Jr.	12,223,259	18,552
Thomas H. Meeker	11,861,644	380,167
<u>Class I Director</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Craig J. Duchossois	12,205,840	35,971
<u>Class III Director</u>	<u>Votes For</u>	<u>Votes Withheld</u>
Robert L. Fealy	12,218,748	23,063

A proposal (Proposal No. 2) to approve the minutes of the 2000 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: 12,207,917 shares were voted in favor of the proposal; 11,594 were voted against; and 22,300 abstained.

The total number of shares of common stock outstanding as of April 23, 2001, the record date of the Annual Meeting of Shareholders, was 13,084,451.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. Exhibits and Reports on Form 8-K.

A. Exhibits

See exhibit index on page 25.

B. Reports on Form 8-K

Churchill Downs Incorporated filed a Current Report on Form 8-K dated May 10, 2001, attaching our first quarter earnings release dated May 8, 2001.

SIGNATURES

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

CHURCHILL DOWNS INCORPORATED

August 14, 2001

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

August 14, 2001

\s\Robert L. Decker
Robert L. Decker
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

August 14, 2001

\s\Michael E. Miller
Michael E. Miller
Senior Vice President, Finance
(Principal Accounting Officer)

EXHIBIT INDEX

<u>Numbers</u>	<u>Description</u>	<u>By Reference To</u>
(3)(a)	Restated Bylaws of Churchill Downs Incorporated as amended	Page 26, Report on Form 10-Q for the fiscal quarter ended June 30, 2001.
(10)(a)	Churchill Downs Incorporated Amended and Restated Incentive Compensation Plan (1997)	Page 38, Report on Form 10-Q for the fiscal quarter ended June 30, 2001.

AMENDED AND RESTATED BYLAWS OF

CHURCHILL DOWNS INCORPORATED

ARTICLE I

OFFICE AND SEAL

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

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

ARTICLE II

STOCKHOLDERS MEETINGS AND RECORD DATES

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

SECTION 2. SPECIAL MEETINGS. Special meetings of the stockholders may be called by holders of not less than 662/3% of all shares entitled to vote at the meeting, or by a majority of the members of the Board of Directors.

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

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

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

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

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

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

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

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

No business may be transacted at any meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto)

given by or at the direction of the Board of Directors, (b) otherwise properly brought before such meeting of stockholders by or at the direction of the Board of Directors, or (c) in the case of any annual meeting of stockholders or a special meeting called for the purpose of electing directors, otherwise properly brought before such meeting by any stockholder (i) who is a stockholder of record on the date of the giving of the notice provided for in this Section 9 and on the record date for the determination of stockholders entitled to vote at such meeting of stockholders and (ii) who complies with the notice procedures set forth in this Section 9.

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

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

To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter (including nominations) such stockholder proposes to bring before the meeting of stockholders (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting the business at the meeting, (b) the name and record address of such stockholder, (c) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder as of the record date for the meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice, (d) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business, (e) as to each person whom the stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person and (ii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by the person as of the record date for the meeting (if such date

shall then have been made publicly available and shall have occurred) and as of the date of such notice, (f) any other information which would be required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitations of proxies for the proposal (including, if applicable, with respect to the election of directors) pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder if such stockholder were engaged in such solicitation, and (g) a representation that such stockholder intends to appear in person or by proxy at the meeting to bring such business before the meeting. Any notice concerning the nomination of a person for election as a director must be accompanied by a written consent of the proposed nominee to being named as a nominee and to serve as a director if elected.

No business shall be conducted and no person shall be eligible for election as a Director at any annual meeting of stockholders or a special meeting of stockholders called for the purpose of electing directors except business or nominations brought before such meeting in accordance with the procedures set forth in this Section 9; provided, however, that, once business has been properly brought before the meeting in accordance with such procedures, nothing in this Section 9 shall be deemed to preclude discussion by any stockholder of any such business. If the chairman of the meeting of stockholders determines that

business was not properly brought before such meeting, or a nomination was not properly made, as the case may be, in accordance with the foregoing procedures, the chairman shall declare to the meeting that (a) the business was not properly brought before the meeting and such business shall not be transacted, or, if applicable, (b) the nomination was defective and such defective nomination shall be disregarded.

ARTICLE III

DIRECTORS

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

SECTION 2. NUMBER AND TENURE. The Board of Directors shall consist of fourteen (14) members but the number may be increased or decreased by amendment of this Bylaw. The Directors shall be divided into three classes, consisting of four (4) Class I Directors, five (5) Class II Directors and five (5) Class III Directors. Each director shall hold office for a term of three (3) years or until his successor shall have been elected and qualifies for the office, whichever period is longer. Directors Emeritus may attend all regular and special meetings of the Board of Directors and shall serve in an advisory capacity without a vote in Board actions.

SECTION 3. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this bylaw, immediately after, and at the same place as, the annual meeting of stockholders. The Board of Directors may provide,

29

by resolution, the time and place, either within or without the State of Kentucky, for the holding of additional regular meetings without other notice than such resolution.

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

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

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

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

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

SECTION 9. INFORMAL ACTION. Any action required or permitted to be taken of the Board of Directors or of a committee of the Board, may be taken without a meeting if a consent, in writing, setting forth action so taken shall be signed by all of the Directors, or all of the members of the committee, as the case may be. Members of the

30

Board of Directors or any committee designated by the Board may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment whereby all persons participating in the meeting can hear or speak to each other at the same time. Participation in a meeting pursuant to this section shall constitute presence in person at the meeting.

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

ARTICLE IV

COMMITTEES OF THE BOARD

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

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

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

manner of doing business or conducting the affairs of the Corporation as shall be deemed advisable.

SECTION 4. THE COMPENSATION COMMITTEE. The Board of Directors shall appoint and establish a Compensation Committee to be composed of five (5) Directors who shall be appointed by the Board annually. Each member of the Compensation Committee shall be a director who is not, during the one year prior to service or during such service, granted or awarded equity securities pursuant to any executive compensation plan of the Company. It shall be the duty of the Compensation Committee to administer the Company's Supplemental Benefit Plan[s], the Company's Incentive Compensation Plan[s], the Company's Stock Option Plan[s], any executive compensation plan and any shareholder approved employee stock purchase or thrift plan, including without limitation, matters relating to the amendment, administration, interpretation, employee eligibility for and participation in, and termination of, the foregoing plans. It shall further be the duty of the Compensation Committee to review annually the salary paid to the President and Chief Executive Officer of the Company and to exercise any other authorities relating to compensation that the Board may lawfully delegate to it; provided, however, the Compensation Committee shall not have the power to enter into any employment agreement with an officer of the Company without the specific approval and ratification of the Board of Directors.

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

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

ARTICLE V

OFFICERS

SECTION 1. CLASSES. The officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, a Treasurer and such other officers and agents as may be provided by the Board and elected in accordance with the provisions of this Article. Any of the offices may be combined in one person in accordance with the provisions of law. The Chairman of the Board of Directors shall be a

member of the Board but none of the other officers is required to be a member of the Board.

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

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

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

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

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

President shall perform such other duties as from time to time may be assigned by the President or by the Board of Directors.

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

SECTION 8. SECRETARY. The Secretary shall attend all meetings of the Board of Directors, make a record of the business transacted and record same in one or more books kept for that purpose. The Secretary shall see that the Stock Transfer Agent of the Corporation keeps proper records of all transfers, cancellations and reissues of stock of the Corporation and shall keep a list of the stockholders of the Corporation in alphabetical order, showing the Post Office address and number of shares owned by each. The

Secretary shall also keep and have custody of the seal of the Corporation and when so directed and authorized by the Board of Directors shall affix such seal to instruments requiring same. The Secretary shall be responsible for authenticating records of the Corporation and shall perform such other duties as may be specified in the Bylaws or as he may be authorized to perform by the Board of Directors.

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

ARTICLE VI

CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. CONTRACTS AND AGREEMENTS. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or

34

agreement or execute and deliver any instruments in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

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

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

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

ARTICLE VII

CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as may be determined by the Board of Directors. Such certificates shall be signed by the President or Vice President and by the Secretary or an assistant Secretary and may be sealed with the seal of the Corporation or a facsimile thereof. All certificates surrendered to the Corporation for transfer shall be canceled, and no new certificate shall be issued until the former certificate for all like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate, a new one may be issued therefor upon such terms and indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. TRANSFER OF SHARES. Transfer of shares of the Corporation shall be made only on the books of the Corporation by the registered holder thereof or by his attorney authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

ARTICLE VIII

FISCAL YEAR

35

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

ARTICLE IX

WAIVER OF NOTICE

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

ARTICLE X

INDEMNIFICATION OF OFFICERS AND DIRECTORS

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

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

ARTICLE XI

FIDELITY BONDS

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

36

ARTICLE XII

AMENDMENT OF BYLAWS

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

37

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

ARTICLE 1

PURPOSE

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

ARTICLE 2

DEFINITIONS

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

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

- I. **Discretionary Achievement Percentage Levels.** The percentages established annually by the Committee to be used, as provided in Section 6.5, in computing a part of an Annual Incentive Compensation Award, based upon achievement of a Discretionary Performance Goal.
- J. **Discretionary Performance Goals.**
- K. **Effective Date.** January 1, 1997.
- L. **Incentive Compensation Award.** The award as defined in Article 6. An award under the Churchill Downs Incorporated Incentive Compensation Plan (1997) during any year shall be an "Annual Incentive Compensation Award."
- M. **Participant.** An employee of the Company who is selected for participation in the Plan in accordance with the provisions of Article 5. For purposes of Articles 7 and 8, the term Participant shall also include a former employee who is entitled to benefits under this Plan.
- N. **Participation Classification.** The classification assigned to each Participant in accordance with the provisions of Article 5.

- O. Participation Percentage. The percentages of participation in the Plan as defined in Article 6.
- P. Performance Goals. The performance goals as defined in Article 6.
- Q. Plan. The Churchill Downs Incorporated Incentive Compensation Plan (1997)
- R. Plan Year. The twelve-month period commencing on January 1 of one calendar year and ending on December 31 of the same calendar year, which period is also the Company's fiscal year.
- S. Profit Center. Each Churchill Downs Incorporated racing operation, Churchill Downs Incorporated Corporate Sales, Churchill Downs Management Company, and any other profit centers designated by the CEO.
- T. Pre-tax Income. The annual consolidated income of the Company, before federal and state income taxes, after any allowance for payments made or to be made under this Plan, and after inclusion of all extraordinary revenues and deduction of all extraordinary expenses, all as calculated in accordance with generally accepted accounting principles consistently applied and confirmed by the audit report of the Company's independent public accountants.

39

- U. Profit Center Achievement Percentage Levels. The percentages established annually by the Committee to be used, as provided in Section 6.3, in computing a part of an Annual Incentive Compensation Award, based upon achievement of a Profit Center Performance Goal.
- V. Profit Center Performance Goals. The goals defined in Section 6.1.B.
- W. Salary. The Participant's base annual salary as set by either the Compensation Committee of the Board or the CEO.
- X. Service Center. The Finance, Development & Technology Service Center, the Legal Service Center, the Corporate Communications Service Center, and any other service center designated by the CEO.
- Y. Service Center Achievement Percentage Levels. The percentages established annually by the Committee to be used, as provided in Section 6.4, in computing a part of an Annual Incentive Compensation Award based upon achievement of a Service Center Performance Goal.
- Z. Service Center Performance Goals. The goals defined in Section 6.1.C.
- AA. Termination Date. December 31, 2001, or such earlier date as may be determined under Section 9.2.

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

ARTICLE 3

ADMINISTRATION

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

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

40

to the Plan not inconsistent with the Plan; to determine, consistently therewith, all questions that may arise as to the eligibility, benefits, status and right of any person claiming benefits under the Plan; to determine whether a Participant was terminated for just cause; and subject to and consistent with, any applicable laws, to make factual determinations, to construe and interpret the Plan and correct any defect, supply any omissions or reconcile any inconsistencies in the Plan. Any such determination by the Committee shall presumptively be conclusive and binding on all persons. The regularly kept records of the Company shall be conclusive and binding upon all persons with respect to a Participant's date and length of employment, time and amount of salary and the manner of payment thereof, type and length of any absence from work and all other matters contained therein relating to employment. All rules and determinations of the Committee shall be uniformly and consistently applied to all persons in similar circumstances.

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

ARTICLE 4

EFFECTIVE DATE AND TERMINATION

The Plan shall be effective as of January 1, 1997. The Plan shall terminate on December 31, 2001, except with respect to the payment of any Incentive Compensation Awards which may become due and payable thereafter, or unless terminated earlier by action of the Board under Section 9.2.

ARTICLE 5

ELIGIBILITY AND PARTICIPATION

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

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

Committee may change the Class designation of a Participant as of the beginning of any Plan Year.

ARTICLE 6

ANNUAL INCENTIVE COMPENSATION AWARDS

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

A. The Company achieves certain Pre-tax Income for the applicable year: the "Threshold Company Goal" (90% of the Pre-tax Income target set in the applicable Budget); the "Target Company Goal" (100% of the Pre-tax Income target set in the applicable Budget); and the Maximum Company Goal" (115% of the Pre-tax Income target set in the applicable Budget) (the "Company Performance Goal[s]"). The Committee shall establish annually the percentage of the Annual Incentive Compensation Award to each Participant which is awarded to each

Participant based upon the Company Performance Goals (the “Company Performance Goals Percentage”).

B. In the case of Classes to which Participants working in Profit Centers are assigned, the Profit Center achieves certain pre-tax net income levels for the applicable year: the “Threshold Profit Center Goal” (90% of the pre-tax net income set in the Profit Center’s applicable Budget); the “Target Profit Center Goal” (100% of the pre-tax net income set in the Profit Center’s applicable Budget); and the “Maximum Profit Center Goal” (115% of the pre-tax net income set in the Profit Center’s applicable Budget) (the “Profit Center Performance Goal[s]”). The Committee shall establish annually the percentage of the Annual Incentive Compensation Award which is awarded to each Participant based upon the Profit Center Performance Goals (the “Profit Center Performance Goals Percentage”).

C. In the case of Classes to which Participants working in Service Centers are assigned, such Service Center meets certain objective financial and other criteria established by the CEO and the Senior Vice President of that Service Center for the applicable year: the “Threshold Service Center Goal” (90% of the Service Center’s established criteria); the “Target Service Center Goal” (100% of the Service Center’s established criteria); and the “Maximum Service Center Goal” (115% of the Service Center’s established criteria) (the “Service Center Performance Goal[s]”). Achievement of the Service Center Performance Goals shall be determined in the CEO’s sole discretion. The Committee shall establish annually the percentage of the Annual Incentive Compensation Award which is awarded to each Participant based upon the Service Center Performance Goals (the “Service Center Performance Goals Percentage”).

D. The Participant achieves certain performance standards particular to his or her position in the Company for the applicable year: the “Threshold Discretionary Goal” (90% of the Participant’s performance standards); the “Target Discretionary Goal” (100% of the Participant’s performance standards); and the “Maximum Discretionary Goal” (115% of the Participant’s performance standards) (the “Discretionary Performance Goal[s]”). Achievement of the Discretionary Performance Goals shall be determined in the sole discretion of the CEO. The Committee shall establish annually the percentage of the Annual Incentive Compensation Award which is awarded based upon the Discretionary Performance Goals (the “Discretionary Performance Goals Percentage”).

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

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

6.4 Computation of Award based on Service Center Performance Goals. For each Plan Year for which the Company achieves at least the Threshold Company Performance Goal and the Service Center in which that Participant works achieves at least its Threshold Service Center Performance Goal, each Participant in a Service Center Class shall be awarded an Annual Incentive Compensation

Award which shall be computed by multiplying: (i) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage, as established annually by the Committee for the Participant's Class; by (iii) the Service Center Performance Goals Percentage as established annually by the Committee for the Participant's Class; by (iv) the applicable Service Center Achievement Percentage Level as established annually by the Committee.

6.5 Computation of Award based on Discretionary Performance Goals.

For each Plan Year for which the Company achieves at least the Threshold Company Performance Goal and that Participant achieves at least his/her Threshold Discretionary Performance Goal, a Participant may be awarded an Annual Incentive Compensation Award which shall be computed by multiplying: (i) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage as established annually by the Committee; by (iii) the Discretionary Performance Goals Percentage for the Participant's Class as established annually by the Committee; by (iv) the applicable

Discretionary Achievement Percentage Level as established annually by the Committee. Notwithstanding the foregoing, the Discretionary Achievement Percentage Level for any Plan Year shall not exceed the greater of 100% or the Company Achievement Percentage Level or the greater of 100% or the Profit Unit Achievement Percentage Level (in the case of the Racetrack Profit Centers) for that Plan Year. The CEO, in his/her sole discretion, shall determine whether a Participant has met Discretionary Performance Goals.

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

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

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

ARTICLE 7

PAYMENT OF BENEFITS

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

ARTICLE 8

DESIGNATION OF BENEFICIARIES

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

ARTICLE 9

MISCELLANEOUS PROVISIONS

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

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

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

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

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

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

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