

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, 2004**

**OR**

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

**for the transition period from \_\_\_\_ to \_\_\_\_**

**Commission file number 0-1469**



**CHURCHILL DOWNS**  
INCORPORATED

(Exact name of registrant as specified in its charter)

Kentucky

(State or other jurisdiction of incorporation or organization)

61-0156015

(IRS Employer Identification No.)

700 Central Avenue, Louisville, KY 40208

(Address of principal executive offices) (Zip Code)

(502)-636-4400

(Registrant's telephone number, including area code)

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

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

The number of shares outstanding of registrant's common stock at August 5, 2004 was 13,298,006 shares.

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

	<u>June 30, 2004</u> (unaudited)	<u>December 31, 2003</u>	<u>June 30, 2003</u> (unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 39,587	\$ 18,053	\$ 41,353
Accounts receivable, net of allowance for doubtful accounts of \$1,147 at June 30, 2004 and \$1,141 at December 31, 2003 and \$975 at June 30, 2003	49,717	36,693	45,695
Deferred income taxes	3,349	3,767	3,043
Other current assets	6,261	4,120	5,564
	<hr/>	<hr/>	<hr/>
Total current assets	98,914	62,633	95,655
Other assets	15,474	15,941	11,962
Plant and equipment, net	403,191	367,229	347,699
Goodwill, net	52,239	52,239	52,239
Other intangible assets, net	7,178	7,464	7,313
	<hr/>	<hr/>	<hr/>
	\$ 576,996	\$ 505,506	\$ 514,868
	<hr/>	<hr/>	<hr/>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 76,040	\$ 34,466	\$ 64,435
Accrued expenses	43,918	38,491	35,853
Dividends payable	-	6,625	-
Income taxes payable	7,062	1,016	8,510
Deferred revenue	4,478	18,050	7,653
Long-term debt, current portion	-	5,740	472
	<hr/>	<hr/>	<hr/>
Total current liabilities	131,498	104,388	116,923
Long-term debt, due after one year	146,079	121,096	119,811
Other liabilities	13,627	11,719	14,053

Deferred income taxes	13,318	13,327	13,103
Total liabilities	304,522	250,530	263,890
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: 13,295 shares June 30, 2004, 13,250 shares December 31, 2003, and 13,183 shares June 30, 2003	129,789	128,583	126,725
Retained earnings	142,436	126,754	125,770
Accumulated other comprehensive earnings (loss)	249	(361)	(1,517)
	<u>272,474</u>	<u>254,976</u>	<u>250,978</u>
	<u>\$ 576,996</u>	<u>\$ 505,506</u>	<u>\$ 514,868</u>

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

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**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS**  
**for the six and three months ended June 30, 2004 and 2003**  
(Unaudited)  
(in thousands, except per share data)

	<u>Six Months Ended June 30,</u>		<u>Three Months Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Net revenues	\$ 228,797	\$ 224,718	\$ 191,068	\$ 188,999
Operating expenses	<u>181,079</u>	<u>177,524</u>	<u>133,586</u>	<u>131,984</u>
Gross profit	47,718	47,194	57,482	57,015
Selling, general and administrative expenses	<u>19,163</u>	<u>16,839</u>	<u>10,085</u>	<u>8,731</u>
Operating income	<u>28,555</u>	<u>30,355</u>	<u>47,397</u>	<u>48,284</u>
Other income (expense):				
Interest income	201	135	85	73
Interest expense	(2,558)	(3,306)	(1,174)	(1,479)
Miscellaneous, net	840	643	504	173
	<u>(1,517)</u>	<u>(2,528)</u>	<u>(585)</u>	<u>(1,233)</u>
Earnings before provision for income taxes	27,038	27,827	46,812	47,051
Provision for income taxes	<u>(11,356)</u>	<u>(11,298)</u>	<u>(19,384)</u>	<u>(19,026)</u>
Net earnings	<u>\$ 15,682</u>	<u>\$ 16,529</u>	<u>\$ 27,428</u>	<u>\$ 28,025</u>
Net earnings per common share data:				
Basic	\$1.18	\$1.26	\$2.06	\$2.13
Diluted	\$1.17	\$1.24	\$2.04	\$2.09
Weighted average shares outstanding:				
Basic	13,272	13,167	13,287	13,174
Diluted	13,460	13,367	13,473	13,380

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

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**CHURCHILL DOWNS INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**for the six months ended June 30,**  
**(Unaudited)**  
**(\$ in thousands)**

	<u>2004</u>	<u>2003</u>
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 15,682	\$ 16,529
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	10,819	10,171
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(13,024)	(11,260)
Other current assets	(2,141)	424
Accounts payable	39,272	34,928
Accrued expenses	10,035	1,891
Income taxes payable	6,046	7,783
Deferred revenue	(13,572)	(7,223)
Other assets and liabilities	2,406	1,857
	<hr/>	<hr/>
Net cash provided by operating activities	55,523	55,100
	<hr/>	<hr/>
<b>Cash flows from investing activities:</b>		
Additions to plant and equipment, net	(47,828)	(19,074)
	<hr/>	<hr/>
Net cash used in investing activities	(47,828)	(19,074)
	<hr/>	<hr/>
<b>Cash flows from financing activities:</b>		
Repayments of revolving loan facility for refinancing	-	(120,929)
Proceeds from senior notes, net of expenses	-	98,229
Borrowings on bank line of credit	196,295	172,453
Repayments of bank line of credit	(175,434)	(154,310)
Decrease in long-term debt, net	(1,618)	(279)
Change in book overdraft	15	(1,915)
Proceeds from note receivable for common stock	-	65
Payment of dividends	(6,625)	(6,578)
Common stock issued	1,206	682
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	13,839	(12,582)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	21,534	23,444
Cash and cash equivalents, beginning of period	18,053	17,909
	<hr/>	<hr/>
Cash and cash equivalents, end of period	<u>\$ 39,587</u>	<u>\$ 41,353</u>
	<hr/>	<hr/>
<b>Supplemental cash flow disclosures:</b>		
Interest	\$ 2,960	\$ 3,398
Income tax	\$ 3,009	\$ 3,442
<b>Schedule of non-cash activities:</b>		
Plant and equipment additions included in accounts payable	\$ 5,915	\$ 233

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

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**1. Basis of Presentation**

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in Churchill Downs Incorporated's (the "Company") annual report on Form 10-K. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. Accordingly, the reader of this Form 10-Q may wish to refer to the Company's Form 10-K, as amended by Form 10-K/A, for the period ended December 31, 2003 for further information. The accompanying condensed consolidated financial statements have been prepared in accordance with the registrant's customary accounting practices and have not been audited.

Certain prior-period financial statement amounts have been reclassified to conform to the current-period presentation. In the opinion of management, all adjustments necessary for a fair presentation of this information have been made and all such adjustments are of a normal recurring nature.

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

**2. Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees." Had the compensation cost for our stock-based compensation plans been determined consistent with Statement of Financial Accounting Standards ("SFAS") No. 123 "Accounting for Stock-based Compensation" the Company's net earnings and net earnings per common share for the six and three months ended June 30, 2004 and 2003 would approximate the pro forma amounts presented below:

	<b>Six Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
Net earnings	\$ 15,682	\$ 16,529
Pro forma stock-based compensation expense, net of tax benefit	(869)	(922)
	<hr/>	<hr/>
Pro forma net earnings	<b>\$ 14,813</b>	<b>\$ 15,607</b>
	<hr/>	<hr/>
Pro forma net earnings per common share:		
Basic	\$1.12	\$1.19
Diluted	\$1.10	\$1.17
	<b>Three Months Ended June 30,</b>	
	<b>2004</b>	<b>2003</b>
Net earnings	\$ 27,428	\$ 28,025
Pro forma stock-based compensation expense, net of tax benefit	(681)	(539)
	<hr/>	<hr/>
Pro forma net earnings	<b>\$ 26,747</b>	<b>\$ 27,486</b>
	<hr/>	<hr/>
Pro forma net earnings per common share:		
Basic	\$2.01	\$2.09
Diluted	\$1.99	\$2.05

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**CHURCHILL DOWNS INCORPORATED**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**for the six months ended June 30, 2004 and 2003 (Unaudited)**  
**(\$ in thousands, except per share data)**

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

**3. Long-Term Debt**

The following table presents our long-term debt, including current portion:

<b>As of</b>	<b>As of</b>	<b>As of</b>
<b>June 30, 2004</b>	<b>December 31, 2003</b>	<b>June 30, 2003</b>

Long-term debt, current portion:			
Other notes payable	\$ -	\$ 5,740	\$ 472
Long-term debt, due after one year:			
\$100 million variable rate senior notes	100,000	100,000	100,000
\$200 million revolving credit facility	40,861	20,000	13,214
Other notes payable	5,218	1,096	6,597
	<u>          </u>	<u>          </u>	<u>          </u>
Total long-term debt	\$146,079	\$126,836	\$120,283
	<u>          </u>	<u>          </u>	<u>          </u>

In April 2003, the Company refinanced its \$250 million revolving credit facility to meet funding needs for working capital, capital improvements and potential acquisitions. The refinancing included a new \$200.0 million revolving line of credit through a bank syndicate with a five-year term and \$100.0 million in variable rate senior notes with a seven-year term. Both debt facilities are collateralized by substantially all of the assets of the Company and its wholly owned subsidiaries. The interest rate on the line of credit is based upon LIBOR plus a spread of 125 to 225 basis points, determined by certain Company financial ratios. The current interest rate on the senior notes is equal to three month LIBOR plus 155 basis points. The weighted average interest rate on outstanding borrowings for the \$200.0 million revolving line of credit was 2.44% and 2.51% at June 30, 2004 and 2003, respectively. The weighted average interest rate on outstanding borrowings for the \$100.0 million senior notes was 2.71% and 2.66% at June 30, 2004 and 2003, respectively. These interest rates are partially hedged by the interest rate swap contracts entered into by the Company as described in Note 4. The senior notes require interest only payments during their term with principal due at maturity. Both debt facilities contain financial and other covenant requirements, including specific fixed charge and leverage ratios, as well as minimum levels of net worth.

#### 4. Financial Instruments

In order to mitigate a portion of the market risk on variable rate debt, the Company has entered into interest rate swap contracts with major financial institutions. Under terms of these contracts the Company receives a three-month LIBOR-based variable interest rate and pays a fixed interest rate on notional amounts totaling \$100.0 million. As a result of these contracts, the Company will pay a fixed interest rate of approximately 3.68% on \$100.0 million of the variable rate debt described in Note 3. The interest rate received on the contracts is determined based on LIBOR near the end of each calendar quarter, which is consistent with the variable rate determination on the underlying debt. Terms of the swaps are as follows:

<u>Notional Amount</u>	<u>Termination Date</u>	<u>Fixed Rate</u>
\$20 million	July 2006	3.24% (1)
\$20 million	March 2008	3.54%
\$15 million	March 2008	3.55%
\$25 million	March 2008	3.54%
\$20 million	March 2010	4.55% (1)

(1) The two interest rate swap contracts noted above were entered into during June 2004.

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**CHURCHILL DOWNS INCORPORATED**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**for the six months ended June 30, 2004 and 2003 (Unaudited)**  
**(\$ in thousands, except per share data)**

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 other comprehensive earnings will be reclassified into net earnings as interest expense in the periods in which the related variable interest is paid.

Comprehensive earnings consist of the following:

	<u>Six months ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Net Earnings	\$ 15,682	\$ 16,529
Cash flow hedging (net of related tax provision of \$417 in 2004 and tax benefit of \$885 in 2003)	610	(1,295)
	<u>          </u>	<u>          </u>
Comprehensive earnings	\$ 16,292	\$ 15,234
	<u>          </u>	<u>          </u>
	<u>Three months ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Net Earnings	\$ 27,428	\$ 28,025
Cash flow hedging (net of related tax provision of \$902 in 2004 and tax benefit of \$530 in 2003)	1,320	(763)
	<u>          </u>	<u>          </u>
Comprehensive earnings	\$ 28,748	\$ 27,262
	<u>          </u>	<u>          </u>

#### 5. Earnings Per Share

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

	<b>Six months ended</b>		<b>Three months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Numerator for basic and diluted earnings per share:	\$15,682	\$16,529	\$27,428	\$28,025
Denominator for weighted average shares of common stock outstanding per share:				
Basic	13,272	13,167	13,287	13,174
Plus dilutive effect of stock options	188	200	186	206
Diluted	13,460	13,367	13,473	13,380
Earnings per common share:				
Basic	\$1.18	\$1.26	\$2.06	\$2.13
Diluted	\$1.17	\$1.24	\$2.04	\$2.09

Options to purchase 145 and 178 shares for the periods ended June 30, 2004 and 2003, respectively, were not included in the computation of earnings per common share assuming dilution because the options' exercise prices were greater than the average market price of the common shares.

## 6. Goodwill and Other Intangible Assets

There has been no change to the carrying value of the Company's net goodwill since January 1, 2002. Net goodwill at June 30, 2004 and 2003 for Kentucky Operations, Calder Race Course and CDSN was \$4.8 million, \$36.4 million and \$11.0 million, respectively.

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**CHURCHILL DOWNS INCORPORATED**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**for the six months ended June 30, 2004 and 2003 (Unaudited)**  
**(\$ in thousands, except per share data)**

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

	<b>As of</b>	<b>As of</b>	<b>As of</b>
	<b>June 30, 2004</b>	<b>December 31, 2003</b>	<b>June 30, 2003</b>
Illinois Horse Race Equity fund	\$3,307	\$3,307	\$3,307
Indiana racing license	2,085	2,085	2,085
Other various intangible assets	4,093	4,133	3,790
	9,485	9,525	9,182
Accumulated amortization	(2,307)	(2,061)	(1,869)
	\$7,178	\$7,464	\$7,313

Amortization expense for other intangibles of approximately \$246 and \$182 for the six months ended June 30, 2004 and 2003, respectively, are classified in operating expenses. Other intangible assets, which are being amortized, are recorded at approximately \$3.9 million and \$4.0 million at June 30, 2004 and 2003, respectively, which are net of accumulated amortization of \$2.3 million and \$1.9 million at June 30, 2004 and 2003, respectively.

The Illinois Horse Race Equity fund intangible represents a future right to participate in a state provided subsidy, and has not been amortized since the Arlington Park merger.

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

	<b>Estimated</b>
	<b>Amortization Expense</b>
2004	\$472
2005	\$472
2006	\$472
2007	\$472
2008	\$437

## 7. Segment Information

The Company has determined that it currently operates in the following seven segments: (1) Kentucky Operations, including Churchill Downs racetrack,

Louisville Trackside and Ellis Park racetrack and its on-site simulcast facility; (2) Hollywood Park racetrack and its on-site simulcast facility; (3) Calder Race Course; (4) Arlington Park and its eight off-track betting facilities ("OTBs"); (5) Hoosier Park racetrack and its on-site simulcast facility and three Indiana OTBs; (6) CDSN, the simulcast product provider of the Company; and (7) other investments, including Churchill Downs Simulcast Productions and the Company's various equity interests which are not material. Eliminations include the elimination of management fees and other intersegment transactions, primarily between CDSN and the racetracks.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" in the Company's Form 10-K, as amended by Form 10-K/A, for the year ended December 31, 2003. The Company uses revenues and EBITDA (defined as earnings before interest, taxes, depreciation and amortization) as key performance measures of results of operations for purposes of evaluating performance internally. Furthermore, management believes that the use of these measures enables management and investors to evaluate and compare from period to period, our operating performance in a meaningful and consistent manner. Because the Company uses EBITDA as a key performance measure of financial performance, the Company is required by accounting principles generally accepted in the United States of America to provide the information in this footnote concerning EBITDA. However, these measures should not be considered as an alternative to, or more meaningful than, net earnings (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.

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**CHURCHILL DOWNS INCORPORATED**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**for the six months ended June 30, 2004 and 2003 (Unaudited)**  
**(\$ in thousands, except per share data)**

The table below presents information about reported segments for the six months ended June 30, 2004 and 2003:

	<u>Six Months Ended June 30,</u>		<u>Three Months Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>Net revenues from external customers:</b>				
Kentucky Operations	\$ 61,625	\$ 57,852	\$ 56,892	\$ 52,954
Hollywood Park	45,527	44,234	40,428	39,265
Arlington Park	40,062	37,996	24,007	24,072
Calder Race Course	23,675	24,003	22,160	22,876
Hoosier Park	20,603	20,451	11,193	11,021
CDSN	36,043	37,988	35,164	37,145
	<hr/>	<hr/>	<hr/>	<hr/>
Total racing operations	227,535	222,524	189,844	187,333
Other investments	238	1,253	200	725
Corporate revenues	1,024	941	1,024	941
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 228,797	\$ 224,718	\$ 191,068	\$ 188,999
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Intercompany net revenues:</b>				
Kentucky Operations	\$ 15,559	\$ 16,229	\$ 15,559	\$ 16,229
Hollywood Park	6,918	6,906	6,914	6,902
Arlington Park	2,200	2,732	2,200	2,732
Calder Race Course	3,276	3,585	2,992	3,337
Hoosier Park	50	37	43	33
	<hr/>	<hr/>	<hr/>	<hr/>
Total racing operations	28,003	29,489	27,708	29,233
Other investments	845	899	700	755
Corporate expenses	544	552	266	269
Eliminations	(29,392)	(30,940)	(28,674)	(30,257)
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ -	\$ -	\$ -	\$ -
	<hr/>	<hr/>	<hr/>	<hr/>
<b>EBITDA:</b>				
Kentucky Operations	\$ 23,927	\$ 23,270	\$ 30,103	\$ 28,417
Hollywood Park	5,447	7,339	8,636	9,554
Arlington Park	3,344	958	2,940	2,427
Calder Race Course	808	1,462	3,460	4,129
Hoosier Park	1,228	1,219	554	545
CDSN	8,613	9,363	8,746	9,144
	<hr/>	<hr/>	<hr/>	<hr/>
Total racing operations	43,367	43,611	54,439	54,216
Other investments	647	466	632	431
Corporate expenses	(3,794)	(2,908)	(1,707)	(1,081)
Eliminations	(6)	-	(6)	-
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 40,214	\$ 41,169	\$ 53,358	\$ 53,566
	<hr/>	<hr/>	<hr/>	<hr/>



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**CHURCHILL DOWNS INCORPORATED**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**for the six months ended June 30, 2004 and 2003 (Unaudited)**  
**(\$ in thousands, except per share data)**

Following is a reconciliation of total EBITDA to net earnings:

	<u>Six Months Ended June 30,</u>		<u>Three Months Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Total EBITDA	\$ 40,214	\$ 41,169	\$ 53,358	\$ 53,566
Depreciation and amortization	(10,819)	(10,171)	(5,457)	(5,109)
Interest income (expense), net	(2,357)	(3,171)	(1,089)	(1,406)
Provision for income taxes	(11,356)	(11,298)	(19,384)	(19,026)
Net earnings	<u>\$ 15,682</u>	<u>\$ 16,529</u>	<u>\$ 27,428</u>	<u>\$ 28,025</u>

The table below presents total asset information about reported segments:

Total assets:

	<u>As of</u>	<u>As of</u>	<u>As of</u>
	<u>June 30, 2004</u>	<u>December 31, 2003</u>	<u>June 30, 2003</u>
Kentucky Operations	\$ 475,338	\$ 438,608	\$ 416,327
Hollywood Park	174,077	148,379	175,619
Arlington Park	88,634	83,725	83,640
Calder Race Course	88,164	88,675	86,438
Hoosier Park	37,911	34,940	35,444
CDSN	11,018	11,018	11,018
Other investments	101,929	90,735	89,558
	<u>977,071</u>	<u>896,080</u>	<u>898,044</u>
Eliminations	(400,075)	(390,574)	(383,176)
	<u>\$ 576,996</u>	<u>\$ 505,506</u>	<u>\$ 514,868</u>

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

Information set forth in this discussion and analysis contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. The reader is cautioned that such forward-looking statements are based on information available at the time and/or management's good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Forward-looking statements are typically identified by the use of terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "predict," "project," "should," "will," and similar words, although some forward-looking statements are expressed differently. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations include: the effect of global economic conditions; the effect (including possible increases in the cost of doing business) resulting from future war and terrorist activities or political uncertainties; the economic environment; the impact of increasing insurance costs; the impact of interest rate fluctuations; the financial performance of our racing operations; the impact of gaming competition (including lotteries and riverboat, cruise ship and land-based casinos) and other sports and entertainment options in those markets in which we operate; the impact of live racing day competition with other Florida and California racetracks within those respective markets; costs associated with our efforts in support of alternative gaming initiatives; costs associated with our Customer Relationship Management initiatives; a substantial change in law or regulations affecting our pari-mutuel activities; a substantial change in allocation of live racing days; litigation surrounding the Rosemont, Illinois, riverboat casino; changes in Illinois law that impact revenues of racing operations in Illinois; a decrease in riverboat admissions subsidy revenue from our Indiana operations; the impact of an additional Indiana racetrack and its wagering facilities near our operations; our continued ability to effectively compete for the country's top horses and trainers necessary to field high-quality horse racing; our continued ability to grow our share of the interstate simulcast market; our ability to execute our acquisition strategy and to complete or successfully operate planned expansion projects; our ability to adequately integrate acquired businesses; market reaction to our expansion projects; any business disruption associated with our facility renovations; the loss of our totalisator companies or their inability to keep their technology current; our accountability for environmental contamination; the loss of key personnel and the volatility of our stock price.

*You should read this discussion with the financial statements included in this report and the Company's Form 10-K, as amended by Form 10-K/A, for the year ended December 31, 2003, 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 operate the Churchill Downs racetrack in Louisville, Kentucky, which has conducted thoroughbred racing since 1875 and is internationally known as the home of the Kentucky Derby, and Ellis Park Race Course, Inc., a thoroughbred racing operation in Henderson, Kentucky (collectively referred to as "Kentucky Operations"). We also own and operate Hollywood Park, a thoroughbred racing operation in Inglewood, California; Arlington Park, a thoroughbred racing operation in Arlington Heights, Illinois; and Calder Race Course, a thoroughbred racing operation in Miami, Florida. Additionally, we are the majority owner and operator of Hoosier Park in Anderson, Indiana, which conducts thoroughbred, quarter horse and standardbred horse racing. We conduct simulcast wagering on horse racing at twelve simulcast wagering facilities in Kentucky, Indiana and Illinois, as well as at our six racetracks.

The Churchill Downs Simulcast Network ("CDSN") provides the principal oversight of our interstate and international simulcast and wagering opportunities, as well as the marketing, sales, operations and data support efforts related to the Company-owned racing content.

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

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

Greater than 70% of our annual revenues are generated by pari-mutuel wagering on live and simulcast racing content and in-home wagering. Live racing handle includes patron wagers made on live races at our live tracks and also wagers made on imported simulcast signals by patrons at our racetracks during our live meets. Import simulcasting handle includes wagers on imported signals at our racetracks when the respective tracks are not conducting live race meets and at our off-track betting facilities ("OTBs") throughout the year. Export handle includes all patron wagers made on our live racing signals sent to other tracks, OTBs and in-home wagering. In-home wagering, or account wagering, consist of patron wagers through an advance deposit account.

## Legislative and Regulatory Changes

During the first half of 2004, the Indiana Horse Racing Commission ("IHRC") considered whether to prevent any Indiana betting facility from accepting wagers on thoroughbred horse races run at Kentucky racetracks, including Churchill Downs racetrack and Ellis Park, unless all Indiana betting facilities were offered the opportunity to accept wagers on such races. Pursuant to its statutory right under the Federal Interstate Horseracing Act of 1978, the Kentucky Horsemen's Benevolent and Protective Association withheld its consent and thereby prevented the Evansville OTB and Clarksville OTB, both owned by Indiana Downs, from accepting wagers on thoroughbred horse races run at Kentucky racetracks. To assist the IHRC in reaching a determination on the matter, the IHRC asked the Indiana Department of Gaming Research ("IDGR") to estimate the impact of simulcast wagering on live horse racing in Kentucky and Indiana. The IDGR issued a report in June 2004, which concluded the racing industry in both states would lose money if none of Indiana's pari-mutuel facilities received Kentucky's racing signals. As a result, at its July 1, 2004 meeting the IHRC decided not to ban Kentucky simulcast signals at Indiana racetracks. Indiana Downs has requested the IHRC to reconsider its decision.

In Florida, Yes for Local Control (formerly known as The Floridians for a Level Playing Field), a coalition of pari-mutuel facilities, including Calder Race Course, has successfully gathered the necessary petition signatures to place a question on the ballot for the November 2004 general election to allow Dade and Broward counties to hold a referendum on the installation of slot machines at existing pari-mutuel sites in those respective counties. The Florida Supreme Court upheld the constitutionality of this initiative in May, 2004. The ballot question was officially certified as initiative number 4 by the Florida Secretary of State on July 21, 2004. On July 23, 2004, a suit was filed against the Florida Division of Elections challenging the format of the initiative petition. Calder Race Course is committed to fund a pro-rata share of the initiative costs.

In California, Hollywood Park is part of a coalition of racetracks and card clubs behind the Gaming Revenue Act of 2004, which is slated for the November 2004 ballot. If passed, this initiative would direct the governor to re-negotiate all existing compacts with Native American tribes in California. If the tribes decline to renegotiate the existing compacts, then five racetracks, including Hollywood Park, and 11 card clubs would be allowed to operate electronic gaming devices. The California Secretary of State certified the initiative, titled Proposition 68, for the ballot on June 2, 2004. Two lawsuits filed to challenge the constitutionality of the initiative have now been dismissed. However, the initiative faces opposition from Governor Schwarzenegger and numerous Indian tribes. Gov. Schwarzenegger recently signed new state compacts with five Native American tribes estimated to provide over \$1 billion to the state budget while allowing tribes to expand their slot operations.

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In addition to Proposition 68 noted above, Proposition 70 also known as The Indian Gaming Fair-Share Revenue Act of 2004, will be on the November ballot. Proposition 70 would permit an unlimited expansion of Native American gaming and call for tribes to pay an 8.8% tax on gaming revenue. Proposition 70 has been endorsed by members of the California Nations Indian Gaming Association. However, the initiative also faces opposition from Governor Schwarzenegger. If both Proposition 68 and Proposition 70 pass, then the proposition with the most votes would become effective.

Also in California, legislation recently passed which is estimated to generate approximately \$10 million annually from a .5% increase in the commission or take out rate on exotic wagers placed on California races. The revenue will be used to pay the cost of workers compensation insurance for backstretch workers and to provide a starter participation bonus. Governor Schwarzenegger signed AB1835 on May 14, 2004.

In 1999, the state of Illinois enacted legislation that provides for pari-mutuel tax relief and related tax credits for Illinois racetracks, as well as legislation providing for subsidies to Illinois horse racing tracks from revenues generated by the relocation of a license to operate a riverboat casino gaming facility. Arlington Park's share of subsidies from the relocation of the license under the 1999 legislation would range from \$4.6 million to \$8.0 million annually, based on publicly available sources. In the event Arlington Park receives such subsidies, additional shares of common stock would be issued to Duchossois Industries, Inc., to a maximum of 1.25 million shares, under our merger agreement with Arlington Park. In January 2001, the Illinois Gaming Board ("IGB") denied a license application of Emerald Casino, Inc. to relocate the license to operate the Rosemont casino. During 2002, Emerald Casino, Inc. filed for bankruptcy and was attempting to sell its license rights subject to the approval of the IGB and the bankruptcy court. In April 2004, the IGB conducted an auction of the license and awarded that license to Isle Capri Casinos, Inc., which announced plans to locate the license to operate in Rosemont, Illinois. Both the Governor of Illinois and the Attorney General of Illinois have convened investigations of the award by the IGB. The date for final approval by the bankruptcy court of the auction and issuance of the license by the IGB is not known at this time.

As anticipated, bills were filed in the 2004 session of the Illinois legislature to eliminate the statutory right of Arlington Park and the other Illinois racetracks to recapture amounts from their purse accounts. However none of those bills advanced during the session. Since 2000, the Illinois General Assembly has appropriated money to reimburse each racetrack's purse account for the amounts not recaptured from horsemen through reductions in future purses. However, the appropriation was vetoed by Illinois's governor during 2002 and the General Assembly did not make the appropriations in 2003. Illinois horsemen unsuccessfully petitioned the Illinois Racing Board ("IRB") to prevent the tracks from recapturing purse amounts in any year where Illinois does not appropriate funds for reimbursement. Illinois horsemen filed a lawsuit against the IRB and the Illinois racetracks, including Arlington Park, challenging the recapture of purse account amounts and seeking reimbursement for the amounts recaptured, and the lawsuit was dismissed in favor of the Illinois racetracks during April 2004. The case was dismissed during July 2004, and plaintiffs have until August 2004 in which to file their appeal. Additionally, Illinois horsemen have filed a new lawsuit challenging the 2004 recapture amount. We have elected to continue to recapture amounts from purses due to horsemen while the litigation is pending.

In Kentucky, racetracks with on-track average daily handle of \$1.2 million or more pay an excise tax equal to 3.5% of on-track handle while tracks with on-track average daily handle that does not meet the \$1.2 million threshold pay an excise tax of 1.5% of on-track handle. To mitigate the disparity of treatment between larger tracks such as Churchill Downs and other Kentucky racetracks we successfully pursued legislation creating an excise tax credit for racetracks as part of the 2002-2004 state budget. The measure resulted in a \$12,000 credit against our excise tax liability for each day of live racing starting July 1, 2003 and ending June 30, 2004. However, average daily wagering at Churchill Downs racetrack fell below the \$1.2 million threshold for the state's fiscal year ended June 30, 2004, which resulted in a drop in our excise tax rate from 3.5% to 1.5% for the year. As a result, the excise tax credit did not apply to Churchill Downs racetrack and a refund of tax payments has been requested of the Kentucky Revenue Cabinet.

We are currently pursuing the excise tax credit in the 2004-2006 state budget but due to revenue shortfalls in Kentucky, it is not anticipated that the excise tax credit will be included in the 2004-2006 Kentucky state budget. The Kentucky General Assembly adjourned in April 2004 without passing a budget. The future status of the excise tax credit will not be determined until a final budget is approved.

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### **Critical Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Our most significant estimates relate to the valuation of property and equipment, receivables, goodwill and other intangible assets, which may be significantly affected by changes in the regulatory environment in which the company operates, and to the aggregate costs for self-insured liability and worker's compensation claims. Our significant accounting policies are described in Note 1 to the consolidated financial statements included in Item 8 of the Company's Form 10-K, as amended by Form 10-K/A for the year ended December 31, 2003.

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

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

[Return to Index](#)**RESULTS OF OPERATIONS**

Pari-mutuel wagering information, including intercompany transactions, for our CDSN segment and five live racing segments including on-site simulcast facilities and separate OTBs, which are included in their respective segments, during the six months ended June 30, 2004 and 2003, is as follows (\$ in thousands):

	<u>Kentucky Operations</u>	<u>Hollywood Park</u>	<u>Calder Race Course</u>	<u>Arlington Park (1)</u>	<u>Hoosier Park</u>	<u>CDSN</u>
<b>Pari-mutuel wagering:</b>						
On-track Live						
2004 handle	\$ 69,342	\$ 54,956	\$ 20,951	\$ 17,654	\$ 2,634	-
2004 no. of days	48	51	49	35	60	-
2003 handle	\$ 76,995	\$ 58,178	\$ 22,139	\$ 19,469	\$ 2,208	-
2003 no. of days	47	50	51	39	50	-
On-track Import						
2004 handle	\$ 15,231	\$ 34,156	\$ 40,081	\$ 25,379	\$ 5,335	-
2004 no. of days	48	51	49	87	60	-
2003 handle	\$ 12,667	\$ 34,843	\$ 42,421	\$ 22,084	\$ 4,837	-
2003 no. of days	47	50	51	69	50	-
Import Simulcasting						
2004 handle	\$ 51,157	\$ 96,231	-	\$247,840	\$ 57,740	-
2004 no. of days	279	129	-	1,408	612	-
2003 handle	\$ 54,691	\$102,039	-	\$220,593	\$ 59,616	-
2003 no. of days	259	130	-	1,099	620	-
Number of Trackside/OTBs	1	-	-	8	3	-
Intrastate Export						
2004 handle	\$ 21,710	\$ 81,705	\$ 13,016	\$ 12,534	\$ 451	-
2004 no. of days	48	51	49	35	60	-
2003 handle	\$ 20,892	\$ 83,192	\$ 14,715	\$ 14,599	\$ 278	-
2003 no. of days	47	50	51	39	50	-
Interstate Export (2)						
2004 handle	-	-	-	-	\$ 37,128	\$910,545
2004 no. of days	-	-	-	-	60	183
2003 handle	-	-	-	-	\$ 26,506	\$991,099
2003 no. of days	-	-	-	-	50	187
Other Wagering						
2004 handle	\$ 36,537	\$108,587	\$ 72,191	-	-	-
2003 handle	\$ 33,401	\$100,831	\$ 70,823	-	-	-
<b>Totals</b>						
<b>2004 handle</b>	<b>\$193,977</b>	<b>\$375,635</b>	<b>\$146,239</b>	<b>\$303,407</b>	<b>\$103,288</b>	<b>\$910,545</b>
<b>2003 handle</b>	<b>\$198,646</b>	<b>\$379,083</b>	<b>\$150,098</b>	<b>\$276,745</b>	<b>\$ 93,445</b>	<b>\$991,099</b>

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	<u>Kentucky Operations</u>	<u>Hollywood Park</u>	<u>Calder Race Course</u>	<u>Arlington Park (1)</u>	<u>Hoosier Park</u>	<u>CDSN</u>
<b>Pari-mutuel revenues: (3)</b>						
2004 Revenues						
On-track Live	\$ 10,711	\$ 8,563	\$ 4,157	\$ 3,261	\$ 486	-
On-track Import	2,805	4,368	7,157	4,604	300	-
Import Simulcasting	4,526	1,925	-	21,797	10,818	-
Intrastate Export	1,863	7,735	1,564	1,040	14	-
Interstate Export	-	-	-	-	1,067	\$ 34,578
Other Revenue	4,757	14,503	9,845	4,338	644	-
Total 2004 Revenue	\$ 24,662	\$ 37,094	\$ 22,723	\$ 35,040	\$ 13,329	\$ 34,578

2003 Revenues						
On-track Live	\$ 10,965	\$ 8,955	\$ 4,416	\$ 3,605	\$ 403	-
On-track Import	2,127	4,407	7,590	3,824	289	-
Import Simulcasting	5,745	2,250	-	20,332	11,048	-
Intrastate Export	1,415	7,811	1,803	1,191	8	\$ 36,486
Interstate Export	-	-	-	-	764	-
Other Revenue	4,196	12,441	9,130	4,474	383	-
Total 2003 Revenue	\$ 24,448	\$ 35,864	\$ 22,939	\$ 33,426	\$ 12,895	\$ 36,486

- (1) Arlington Park's eighth OTB opened during February 2004 and the seventh OTB opened during June 2003.
- (2) CDSN export simulcasting includes all interstate handle activity at our live racing segments except Hoosier Park.
- (3) Pari-mutuel revenues for live racing, export simulcasting and import simulcasting include commissions from wagering (net of state pari-mutuel taxes) and simulcast host fees from other wagering sites. Other revenues include source market fees from in-home wagering and other statutory racing revenues.

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## Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

### Net Revenues

Net revenues during the six months ended June 30, 2004 increased \$4.1 million from \$224.7 million in 2003 to \$228.8 million in 2004. Kentucky Operations increased \$3.1 million primarily due to incremental Jockey Club luxury suite sales for Kentucky Derby and Oaks days partially offset by a decrease in pari-mutuel revenues attributable to inclement weather and reduced attendance resulting from the impact of the Churchill Downs racetrack facility renovation project, referred to as the "Master Plan" project. During January and February when there is no live racing in Illinois, the Illinois Racing Board ("IRB") appoints a thoroughbred racetrack as the host track in Illinois. The IRB appointed Arlington Park as the host track in Illinois for 52 days during portions of January and February 2004 compared to 30 days during January 2003. Additionally, Arlington Park pari-mutuel revenues improved in 2004 as a result of the 2003 Illinois horsemen's strike which negatively affected wagering in 2003. The decrease at Calder Race Course was primarily attributable to two fewer live race days during 2004 compared to 2003. Hollywood Park revenues increased primarily due to one additional day of live racing in 2004 compared to 2003 plus incremental source market revenues. CDSN revenues also decreased \$1.9 million primarily due to fewer live race days at Arlington Park and Calder Race Course as well as the impact of inclement weather at our Kentucky Operations and Arlington Park. CDSN revenues also decreased during 2004 resulting from CDSN's unusually strong activity during 2003 compared to New York Racing Association ("NYRA") activity, which experienced poor weather conditions during 2003.

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### Operating Expenses

Operating expenses increased \$3.6 million from \$177.5 million in 2003 to \$181.1 million in 2004. Kentucky Operations increased \$2.9 million primarily due to temporary facilities expense associated with our infield hospitality tent to accommodate patrons during the Kentucky Oaks and Derby days plus increased expense associated with our Personal Seats Licensing activity. Hollywood Park increased \$2.0 million resulting from purse and racing related expense increases consistent with increases in pari-mutuel revenues as well as increased insurance costs and property taxes and the timing of special events costs early in the 2004 Spring Meet. CDSN expenses decreased \$1.5 million consistent with decreases in pari-mutuel revenues noted above.

### Gross Profit

Gross profit increased \$0.5 million from \$47.2 million in 2003 to \$47.7 million in 2004 primarily due to incremental Jockey Club luxury suite sales and revenue growth during 2004 as discussed above.

### Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by \$2.4 million from \$16.8 million in 2003 to \$19.2 million in 2004 primarily as a result of costs related to the California voter initiative for alternative gaming and corporate expenses related to the Customer Relationship Management ("CRM") project.

### Other Income and Expense

Interest expense decreased \$0.7 million in 2004 primarily due to a first quarter 2003 expense of \$0.6 million for unamortized loan issuance cost written-off as a result of the refinancing of the credit facility in April 2003.

### Income Tax Provision

Our income tax provision increased \$0.1 million as a result of an increase in our currently estimated effective income tax rate from 40.6% in 2003 to 42.0% in 2004 partially offset by a decrease in pre-tax earnings.

### **Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003**

#### Net Revenues

Net revenues during the three months ended June 30, 2004 increased \$2.1 million from \$189.0 million in 2003 to \$191.1 million in 2004. Kentucky Operations increased primarily due to incremental Jockey Club luxury suite sales for Kentucky Derby and Oaks days. Hollywood Park revenues increased \$1.2 million due to one additional day of live racing in 2004 compared to 2003 as well as incremental source market revenues. Arlington Park pari-mutuel revenues decreased \$1.0 million due to four fewer live racing days during the three months ended June 30, 2004 compared to 2003, which was partially offset by increased group sales and sponsorship revenues. Calder Race Course had a decrease of two live racing days resulting in a decrease in revenues of \$1.1 million. CDSN revenues also decreased \$2.0 million due to fewer live race days at Arlington Park and Calder Race Course and decreased wagering at our Kentucky Operations and Arlington Park from inclement weather. CDSN revenues also decreased during 2004 resulting from CDSN's unusually strong activity during 2003 compared to NYRA activity, which experienced poor weather conditions during 2003.

#### Operating Expenses

Operating expenses increased \$1.6 million from \$132.0 million in 2003 to \$133.6 million in 2004 resulting from increased expenses of \$1.8 million at our Kentucky Operations primarily due to temporary facilities expense associated with infield hospitality and other related expenses from the Master Plan project. Hollywood Park's operating expenses increased \$1.4 million resulting from one additional day of live racing, increased insurance costs and property taxes and the timing of special events costs early in the 2004 Spring Meet. Calder Race Course and Arlington Park operating expenses decreased resulting from the decreased number of live racing days as noted above.

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#### Gross Profit

Gross profit increased \$0.5 million from \$57.0 million in 2003 to \$57.5 million in 2004 primarily due to the increase in revenues for the three months ended June 30, 2004 discussed above.

#### Selling, General and Administrative Expenses

SG&A expenses increased by \$1.4 million primarily as a result of costs related to the California voter initiative for alternative gaming and corporate expenses related to the CRM project.

#### Other Income and Expense

Although there was an increase in our overall debt balances resulting in increased interest expense for the three months ended June 30, 2004, the increase was offset by capitalized interest related to our Master Plan project.

#### Income Tax Provision

Our income tax provision increased \$0.4 million as a result of an increase in our currently estimated effective income tax rate from 40.4% in 2003 to 41.4% in 2004. The increase in the estimated effective income tax rate is a result of increased non-deductible legislative expenses in California and Florida.

### **Significant Changes in the Balance Sheet June 30, 2004 to December 31, 2003**

Accounts receivable balances increased by \$13.0 million in 2004 primarily due to the timing of payments received related to the 2004 live meets for Kentucky Operations, Arlington Park and Hollywood Park with increases in accounts receivable balances of \$1.6 million, \$5.3 million and \$4.4 million, respectively. Hoosier Park also had an increase of \$2.0 million due to timing of Indiana riverboat admissions subsidy collections.

Net plant and equipment increased \$36.0 million primarily as a result of capital expenditures of \$38.3 million related to the Master Plan project. Additional increases were due to routine capital spending at our operating units offset by depreciation of \$10.6 million.

Accounts payable increased \$41.6 million primarily due to the timing of payments for horsemen accounts, purses payable and other expenses related to the operation of live racing at all of our racetracks.

Accrued expenses increased \$5.4 million as a result of Arlington Park, Calder Race Course and Hollywood Park live racing expenses.

Dividends payable decreased \$6.6 million at June 30, 2004 due to the payment of dividends in the first quarter of 2004.

Income taxes payable increased \$6.0 million representing the estimated income tax expense attributed to income generated in the six months of 2004 and the increase in our effective income tax rate.

Deferred revenue decreased \$13.6 million at June 30, 2004, primarily due to the significant amount of admissions and seat revenue that was received prior to December 31, 2003 recognized as income in May 2004 for the Kentucky Derby and Oaks days.

The current portion of long-term debt decreased due to the extended maturity date on the Hoosier Park loan to November 2014. The increase in total long-term debt is primarily a result of capital spending related to the Master Plan project offset by the use of current cash flows to reduce borrowings under our revolving line of credit.

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### **Significant Changes in the Balance Sheet June 30, 2004 to June 30, 2003**

Net plant and equipment increased \$55.5 million primarily as a result of capital expenditures of \$54.0 million related to the Master Plan project. Additional increases were due to routine capital spending at our operating units offset by depreciation expense of \$20.7 million.

Accounts payable increased \$11.6 million primarily due to timing of settlements and purse payments at Arlington Park, Calder Race Course, Kentucky Operations and Hoosier Park.

Accrued expenses increased \$8.1 million primarily due to costs related to our Master Plan project and worker's compensation accruals at Hollywood Park.

Long-term debt increase of \$26.3 million is primarily a result of capital spending related to the Master Plan project and dividends paid during the period offset by the use of current cash flows to reduce borrowings under our revolving line of credit.

### **Liquidity and Capital Resources**

Cash flows provided by operations were \$55.5 million and \$55.1 million for the six months ended June 30, 2004 and 2003, respectively. Cash provided by operations increased slightly as compared to 2003 consistent with results from operations offset by timing of accrued expenses related to our Master Plan project and timing of the recognition for Derby and Oaks revenues.

Cash flows used in investing activities were \$47.8 million and \$19.1 million for the six months ended June 30, 2004 and 2003, respectively. During the six months ended June 30, 2004 we used \$36.0 million in cash for the Master Plan project. We are planning capital expenditures of approximately \$97.0 million in 2004 including \$74.0 million for the Master Plan project.

Cash flows provided by (used in) financing activities were \$13.8 million and (\$12.6) million for the six months ended June 30, 2004 and 2003, respectively, reflecting the funding of our Master Plan project and the use of cash flows from operations to minimize net borrowings on our debt facilities.

During April 2003, we refinanced our \$250 million revolving loan facility to meet our needs for funding future working capital, capital improvements and potential future acquisitions. The refinancing included a new \$200.0 million revolving line of credit through a syndicate of banks with a five-year term and \$100.0 million in variable rate senior notes issued by us with a seven-year term, of which \$140.9 million was outstanding at June 30, 2004. Both debt facilities are collateralized by substantially all of our assets. The interest rate on the bank line of credit is based upon LIBOR plus a spread of 125 to 225 basis points, determined by certain Company financial ratios. The interest rate on our senior notes is equal to LIBOR plus 155 basis points. These notes require interest only payments during their term with principal due at maturity. Both debt facilities contain financial and other covenant requirements, including specific fixed charge, leverage ratios and maximum levels of net worth. We repaid our previously existing revolving line of credit during the second quarter of 2003 with proceeds from the new facilities. Management believes cash flows from operations and borrowings under our current financing facility will be sufficient to fund our cash requirements for the year.

### **Recent Developments**

During June 2004, it was announced that we would be the opening bidder in the bankruptcy auction of Fair Grounds Corporation's racetrack and off-track betting assets. Our anticipated role in the auction process was included as part of Fair Grounds Corporation's proposed plan of reorganization. The opening bid for the assets under the proposed plan of reorganization is expected to be \$45 million at the auction currently scheduled for mid-August 2004. The auction and bid are subject to certain conditions and there is no assurance that we will be the successful bidder in the auction or that any agreement between the parties would be consummated.

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## **CHURCHILL DOWNS INCORPORATED**

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

At June 30, 2004, we had \$140.9 million of total debt outstanding under our revolving credit facility and senior note facility, which bear 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

debt facilities remains constant, a one-percentage point increase in the LIBOR rate would reduce annual pre-tax earnings, recorded fair value and cash flows by \$1.4 million.

In order to mitigate a portion of the market risk associated with our variable rate debt, we entered into interest rate swap contracts with major financial institutions. Under terms of the contracts we received a LIBOR based variable interest rate and pay a fixed interest rate on notional amounts totaling \$100.0 million. Assuming the June 30, 2004, 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.

#### ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our president and Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report, and, based on their evaluation, our CEO and CFO have concluded that these controls and procedures are effective. There were no significant changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2004 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### PART II. OTHER INFORMATION

#### ITEM 1. Legal Proceedings

Not applicable

#### ITEM 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

Not applicable

#### ITEM 3. Defaults Upon Senior Securities

Not applicable

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

The registrant's 2004 Annual Meeting of Shareholders was held on June 17, 2004. 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	12,298,086	90,857
J. David Grissom	12,319,726	69,216
Seth W. Hancock	10,675,591	1,713,351
Thomas H. Meeker	12,324,099	64,844
Susan Elizabeth Packard	12,305,297	83,645

A proposal (Proposal No. 2) to approve the Churchill Downs Incorporated 2004 Restricted Stock Plan was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 8,887,084 shares were voted in favor of the proposal; 389,084 shares were voted against; 3,033,702 shares were broker non-votes; and 79,073 shares abstained.

A proposal (Proposal No. 3) to approve an amendment to the Churchill Downs Incorporated 2000 Employee Stock Purchase Plan to add 100,000 Shares of Common Stock by increasing the number of shares of Common Stock, no Par Value, reserved for issuance thereunder from 68,581 to 168,581 was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 8,918,605 shares were voted in favor of the proposal; 354,599 shares were voted against; 3,033,701 shares were broker non-votes; and 82,038 shares abstained.

A proposal (Proposal No. 4) to approve the performance goal and the payment of compensation under non-qualified stock options granted to Thomas H. Meeker by the Compensation Committee of the Board of Directors under certain stock option agreements was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 8,981,148 shares were voted in favor of the proposal; 278,238 shares were voted against; 3,033,701 shares were broker non-votes; and 95,856 shares abstained.

A proposal (Proposal No. 5) to approve the minutes of the 2003 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: 11,251,613 shares were voted in favor of the proposal; 1,115,418 shares were voted against; and 21,911 shares abstained.

The total number of shares of common stock outstanding as of April 24, 2004, the record date of the Annual Meeting of Shareholders, was 13,283,983.



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Not Applicable

ITEM 6. Exhibits and Reports on Form 8-K

## A. Exhibits

See exhibit index.

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

- (1) On June 30, 2004, Churchill Downs Incorporated furnished a Current Report on Form 8-K, under Items 7 and 9, "Financial Statements and Exhibits" and "Regulation FD Disclosure," respectively, furnishing our press release dated June 25, 2004 announcing the registrant as the opening bidder in the bankruptcy auction for Fair Grounds Corporation's racetrack and off-track betting assets.
- (2) On May 14, 2004, Churchill Downs Incorporated furnished a Current Report on Form 8-K, under Items 7 and 12, "Financial Statements and Exhibits" and "Results of Operations and Financial Condition," respectively, furnishing our first quarter 2004 earnings press release conference call transcript dated May 5, 2004.
- (3) On May 10, 2004, Churchill Downs Incorporated furnished a Current Report on Form 8-K, under Items 7 and 12, "Financial Statements and Exhibits" and "Results of Operations and Financial Condition," respectively, furnishing the reporting effect of the registrant's classification of host fee expenses incurred on fiscal periods 2001, 2002 and 2003.
- (4) On May 5, 2004, Churchill Downs Incorporated furnished a Current Report on Form 8-K, under Item 12, "Results of Operations and Financial Condition," furnishing our first quarter 2004 earnings release dated May 4, 2004.

[Return to Index](#)**SIGNATURES**

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

**CHURCHILL DOWNS INCORPORATED**

August 5, 2004

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

August 5, 2004

/s/ Michael E. Miller  
 Michael E. Miller  
 Executive Vice President and  
 Chief Financial Officer  
 (Principal Financial and Accounting Officer)

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<b><u>Numbers</u></b>	<b><u>Description</u></b>	<b><u>By Reference To</u></b>
10(a)	Agreement Regarding Participation Agreement between Churchill Downs Management Company and Centaur Racing, LLC dated May 6, 2004	Report on Form 10-Q for the fiscal quarter ended June 30, 2004

10(b)	First Amendment to the Partnership Interest Purchase Agreement by and among Anderson Park, Inc., Churchill Downs Management Company and Centaur Racing, LLC dated May 6, 2004	Report on Form 10-Q for the fiscal quarter ended June 30, 2004
10(c)	2004A Amendment to Loan Documents among Churchill Downs Incorporated and Bank One, NA dated June 1, 2004	Report on Form 10-Q for the fiscal quarter ended June 30, 2004
10(d)	Churchill Downs Incorporated 2004 Restricted Stock Plan	Exhibit 4.5 to the Registrant's Registration Statement on Form S-8 dated June 22, 2004 (No. 333-116734)
10(e)	Letter agreements between Churchill Downs Incorporated and Fair Grounds Corporation dated June 25, 2004 and June 29, 2004	Report on Form 10-Q for the fiscal quarter ended June 30, 2004
31(a)	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Report on Form 10-Q for the fiscal quarter ended June 30, 2004
31(b)	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Report on Form 10-Q for the fiscal quarter ended June 30, 2004
32	Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished pursuant to Rule 13a - 14(b))	Report on Form 10-Q for the fiscal quarter ended June 30, 2004

## AGREEMENT REGARDING PARTICIPATION AGREEMENT

**THIS AGREEMENT REGARDING PARTICIPATION AGREEMENT** (this "Agreement") is made and entered into as of the 6th day of May, 2004, between **CHURCHILL DOWNS MANAGEMENT COMPANY**, a Kentucky corporation ("Lead"), and **CENTAUR RACING, LLC**, an Indiana limited liability company ("Participant").

**WHEREAS**, Lead and Participant are parties to a Participation Agreement dated as of December 3, 2001 (the "Original Participation Agreement");

**WHEREAS**, Borrower requested and Lead has agreed to extend the Loan Maturity Date (as that term is defined in the Construction Loan Agreement) pursuant to the terms of [i] Third Agreement Regarding Construction Loan and Permanent Financing Agreement, Collateral Assignment of Contract, Note and Other Matters (the "May 6, 2004 Agreement"), [ii] Third Agreement Amending Mortgage, Assignment of Rents, Security Agreement and Fixture Filing (Madison County Property) (the "Third Amendment"), [iii] Agreement Amending Mortgage, Assignment of Rents, Security Agreement and Fixture Filing (Allen County Property) (the "Allen County Amendment"), and [iv] Agreement Amending Mortgage, Assignment of Rents, Security Agreement and Fixture Filing (Lake County Property) (the "Lake County Amendment;" the Third Amendment, the Madison County Amendment, the Allen County Amendment and the Lake County Amendment collectively are referred to in this Agreement as the "Amendment Documents"), all dated as of the date hereof by and between Lead and Borrower;

**WHEREAS**, Lead and Participant desire to enter into this Agreement to modify the Participation Agreement to recognize the execution and delivery of the Amendment Documents;

**NOW THEREFORE**, Lender and Borrower have agreed and do agree as follows:

### ARTICLE 1 THE PARTICIPATION AGREEMENT

1.1 All defined terms set forth in the Participation Agreement shall have the meanings set forth in the Original Participation Agreement as well as amended by this Agreement.

1.2 The Original Participation Agreement is hereby amended as set forth below:

- A. Section 1 is amended by deleting the entirety of the current text of Section 1 and inserting new text for Section 1 reading in its entirety as follows:

1. The Participation. As partial consideration for the purchase price paid by Participant pursuant to the Purchase Agreement, the Lead hereby grants and the Participant hereby accepts a fifteen percent (15%) (which, when added to the Conesco Participation acquired by Participant gives Participant a twenty-five percent (25%) participation) (the twenty-five percent (25%) participation is the "Participation Percentage") undivided participation interest in the loan (the "Loan") heretofore made by the Lead to Hoosier Park, L.P. (the "Borrower") pursuant to (A) the Construction Loan and Permanent Financing Agreement, dated September 30, 1993, between API and the Lead (the "Construction Loan Agreement"), as assumed by the Borrower pursuant to (i) the Hoosier Park Agreement of Limited Partnership dated August 30, 1994 (as amended) and (ii) the Assumption Agreement, dated August 30, 1994, executed by the Borrower in favor of API (the "Assumption Agreement"), and as amended by (i) the Agreement Regarding Construction Loan and Permanent Financing Agreement, Mortgage, Collateral Assignment of Contract and Other Matters, dated January 31, 1994, between API and the Lead (the "January 31, 1994 Agreement"), (ii) the Loan Extension Agreement, dated June 1, 1994, between API and the Lead (the "Extension Agreement"), (iii) the Second Agreement Regarding Construction Loan and Permanent Financing Agreement, Collateral Assignment of Contract and Other Matters dated as of November 30, 1995, between the Borrower and the Lead ("November 30, 1995 Agreement"), and (iv) the Third Agreement Regarding Construction Loan and Permanent Financing Agreement, Collateral Assignment of Contract, Note and Other Matters dated as of May 6, 2004, between the Borrower and the Lead ("May 6, 2004 Agreement") and (B) the Second Amended Secured Promissory Note, dated November 1, 1994, by Borrower in favor of the Lead in the face principal amount of \$28,700,000, as amended by the May 6, 2004 Agreement (as so amended, the "Note"). The Loan is secured pursuant to (A) the Collateral Assignment of Contracts, dated September 30, 1993, between API and the Lead (the "Collateral Assignment"), as assumed by the Borrower pursuant to the Assumption Agreement and as amended by the January 31, 1994 Agreement, the November 30, 1995 Agreement, and the May 6, 2004 Agreement, (B) the Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated September 30, 1993, between API and the Lead (the "Mortgage"), as assigned to the Borrower pursuant to the Assumption Agreement and the Assignment and Assumption of Rents, Security Agreement and Fixture Filing and Consent to Assignment dated August 30, 1994, executed by the Borrower in favor of API (which

was consented to by the Lead and accepted by the Borrower pursuant to agreements dated August 30, 1994) (collectively the "Mortgage Assignments") and as amended by (i) the January 31, 1994 Agreement, (ii) the Second Agreement Amending Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated as of November 30, 1995, between the Lead and the Borrower (the "Second Amendment") and (iii) the Third Agreement Amending Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated as of May 6, 2004, between the Lead and the Borrower (the "Third Amendment"); (C) the Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated November 30, 1995, between Borrower and the Lead, as amended by that certain Agreement Amending Mortgage, Assignment of Rents, Security Agreement and Fixture Filing (the "Allen County Amendment"), dated as of May 6, 2004, between the Lead and the Borrower (as so amended, the "Allen County Mortgage"); (D) the Mortgage, Assignment of Rents, Security Agreement and Fixture Filing, dated November 30, 1995, between Borrower and the Lead as amended by that certain Agreement Amending Mortgage, Assignment of Rents, Security Agreement and Fixture Filing (the "Lake County Amendment"), dated as of May 6, 2004, between the Lead and the Borrower (as so amended, the "Lake County Mortgage"); (E) the API Pledge Agreement, dated August 30, 1994, between API and the Lead, as amended by that certain First Amendment to API Pledge Agreement dated as of May 31, 1996, between API and the Lead (as so amended, the "API Pledge"); (F) the Pegasus Pledge Agreement, dated August 30, 1994, between Pegasus Group, Inc., an Indiana corporation and the Lead (the "Pegasus Pledge Agreement"); (G) the Conseco Pledge Agreement, dated May 31, 1996 between Conseco and the Lead (the "Conseco Pledge Agreement") and (H) the Centaur Racing, LLC Amended and Restated Pledge Agreement, dated December 3, 2001, between Participant and the Lead (the "Centaur Pledge"). The Construction Loan Agreement, the Assumption Agreement, the January 31, 1994 Agreement, the Extension Agreement, the November 30, 1995 Agreement, the May 6, 2004 Agreement, the Note, the Collateral Assignment, the Mortgage, the Mortgage Assignments, the Second Amendment, the Third Amendment, the Allen County Mortgage, the Lake County Mortgage, the API Pledge Agreement, the Pegasus Pledge Agreement, the Conseco Pledge Agreement, and the Centaur Pledge Agreement (collectively, together with any other documentation evidencing the Loan and any security therefor, the "Loan Documents"), copies of which have been provided to the Participant by the Lead.

ARTICLE 2  
MISCELLANEOUS

2.1 Except as specifically modified hereby, the Original Participation Agreement shall continue in full force and effect, unmodified and unamended. This Agreement shall not constitute a novation of the right, duties, obligations or liabilities of Lead, Participant, or any other party pursuant to such document.

2.2 This Agreement shall be binding upon Lead and Participant and their respective successors and assigns.

2.3 Lead and Participant acknowledge and agree that no event of default, and no condition or event which, with the passage of time and/or the giving of notice, could become an event of default under the Original Participation Agreement currently exists.

**IN WITNESS WHEREOF**, Lead and Participant have executed this Agreement effective as of the above date, but actually on the dates set forth below.

LEAD:

**CHURCHILL DOWNS MANAGEMENT COMPANY**

By: /s/Vicki L. Baumgardner

Vice President, Finance & Administration

May 5, 2004

PARTICIPANT:

**CENTAUR RACING, LLC**

By: /s/Jeffrey M. Smith

CEO, Racing Operation

May 5, 2004

**First Amendment to the  
Partnership Interest Purchase Agreement**

**Dated May 6, 2004**

The Partnership Interest Purchase Agreement by and among Anderson Park, Inc., an Indiana corporation ("Seller"), Churchill Downs Management Company, a Kentucky corporation ("CDMC"), and Centaur Racing, LLC, an Indiana limited liability company ("Buyer"), dated as of the 16<sup>th</sup> day of October 2001 (the "Purchase Agreement"), is hereby amended by this First Amendment ("Amendment") as follows:

**W I T N E S S E T H**

WHEREAS, Seller, CDMC and Buyer have entered into the Purchase Agreement;

WHEREAS, pursuant to Section 10.10 of the Purchase Agreement, the parties may amend, modify and supplement the Purchase Agreement by mutual agreement in writing;

WHEREAS, the Selling Parties granted to Buyer a First Option and a Second Option under the Purchase Agreement;

WHEREAS, Buyer has extended the exercise date for the First Option to June 30, 2004 by delivering written notice to the Selling Parties on or before August 31, 2003, with payment in the amount of \$250,000, as permitted by the Purchase Agreement;

WHEREAS, Buyer and the Selling Parties desire to amend the Purchase Agreement to permit the further extension of the First Option Period and to extend the Second Option Period, as provided in this Amendment.

NOW, THEREFORE, in consideration of the foregoing premises and mutual covenants hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which hereby are acknowledged, the parties agree as follows:

1. Amendment of First Option Period. The penultimate sentence of Section 1.4 of the Purchase Agreement is amended to read as follows:

Buyer may exercise the First Option by delivering written notice to the Selling Parties of its intention to do so on or before August 31, 2003 ("First Option Period"); provided, however, that Buyer may extend the First Option Period until June 30, 2004 by delivering written notice to the Selling Parties on or before August 31, 2003 along with a non-refundable payment in the amount of \$250,000 in immediately available funds ("First Extension"); provided, further, that Buyer may further extend the First Option Period until August 31, 2005 by delivering written notice to the Selling Parties on or before June 30, 2004 along with a non-refundable payment in the amount of \$250,000 in immediately available funds ("Second Extension").

2. Amendment of Second Option Period. The penultimate sentence of Section 1.5 of the Purchase Agreement is amended to read as follows:

Buyer may exercise the Second Option by delivering written notice to the Selling Parties of its intention to do so between December 1, 2004 and March 1, 2005 ("Second Option Period"); provided, however, that if Buyer timely exercises the Second Extension, the Second Option Period shall be extended automatically to between December 1, 2005 and March 1, 2006.

3. Regulatory Approval for Amendment. This Amendment is subject to receipt of all necessary Regulatory Approvals and shall be effective upon the later of the date first written above or the date on which all Regulatory Approvals required by applicable Law are received.

4. Capitalized Terms. All capitalized terms used herein shall have the same meaning as set forth in the Purchase Agreement unless otherwise herein defined.

5. Conflicting Terms. Except as herein specifically provided otherwise, all terms and conditions of the Purchase Agreement, including the terms relating to the First Option and Second Option, shall remain in full force and effect and be unaffected hereby. In the event of a conflict between the terms of this Amendment and the Purchase Agreement, this Amendment shall be controlling.

6. Successors and Assigns. This Amendment shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and assigns, as permitted by the Purchase Agreement.

7. Severability. If any provision of this Amendment is held invalid by any tribunal in a final decision from which no appeal is or can be taken, such provision shall be deemed modified to eliminate the invalid element, and, as so modified, such provision shall be deemed a part of this Amendment. If it is not possible to modify any such provision to eliminate the invalid element, such provision shall be deemed eliminated from this Amendment. The invalidity of any provision of this Amendment shall not affect the force and effect of the remaining provisions.

8. Counterparts. This Amendment may be executed in any number of counterparts and each such counterpart shall, for all purposes, be deemed an original. Facsimile transmission of a counterpart hereto shall be deemed an original hereof.



IN WITNESS WHEREOF, the parties have caused this Amendment to be executed on the date first above written and agree to the foregoing.

"SELLER"

Anderson Park, Inc.

By: /s/Richard B. Moore  
Richard B. Moore  
President and General Manager

"CDMC"

Churchill Downs Management Company

By: /s/Vicki L. Baumgardner  
Vicki L. Baumgardner  
Vice President, Finance & Administrative, Treasurer

"BUYER"

Centaur Racing, LLC

By: Centaur, Inc., its sole member

By: /s/Jeffrey M. Smith  
Jeffrey M. Smith  
CEO Racing Operations

Centaur, Inc.  
as guarantor

By: /s/Jeffrey M. Smith  
Jeffrey M. Smith  
CEO, Racing Operations

## 2004A AMENDMENT TO LOAN DOCUMENTS

This is a 2004A Amendment to Loan Documents dated as of June 1, 2004 (the "Amendment"), among CHURCHILL DOWNS INCORPORATED (the "Borrower"), the GUARANTORS (defined below), and BANK ONE, NA, headquartered in Chicago, Illinois (successor by merger to Bank One, Kentucky, NA) a national banking association with an office in Louisville, Kentucky, as contractual representative for the LENDERS (defined below) as provided in the Credit Agreement (defined below) (in such capacity, the "Agent").

### RECITALS

- A. The Borrower, the Agent, the Guarantors (defined in the Credit Agreement), and the Lenders (defined in the Credit Agreement), party thereto, entered into a Credit Agreement dated as of April 3, 2003 (the "Credit Agreement").
- B. The Loans described in the Credit Agreement are secured by the Collateral (defined in the Credit Agreement and other Loan Documents).
- C. The Borrower has requested the Agent and the Lenders to make changes to the Credit Agreement and other Loan Documents for the purpose of adding provisions to or modifying certain provisions of the Loan Documents.

NOW, THEREFORE, the Borrower, the Guarantors and the Agent agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined in this Amendment shall have the meanings given them in the Credit Agreement.
2. Amendments to the Credit Agreement. The Credit Agreement is hereby amended, modified and restated as follows:
  - (a) Amendment of ARTICLE I Definitions. The following definitions set forth in Article I of the Credit Agreement are hereby amended and restated to read in their entirety as follows:

"Bank One" means Bank One, NA, a national banking association headquartered in Chicago, Illinois, with offices in Louisville, Kentucky, successor by merger to Bank One, Kentucky, NA, in its individual capacity, and its successors.

"Excluded Group" means and includes Duchossois Industries, Inc. and its Affiliates.

"Fixed Charges" means for any period of determination, the sum of interest expense, income tax expenses, scheduled principal installments on Indebtedness with maturities greater than one year (as adjusted for prepayments), dividend payments, and scheduled payments under Capitalized Leases.

“Fixed Charge Coverage Ratio” means, as of any date of calculation, the ratio of (a) Consolidated Adjusted EBITDA less Capital Expenditures (excluding (1) Capital Expenditures consisting solely of consideration paid or payable for Permitted Acquisitions, and (2) Capital Expenditures expended under and in compliance with the Master Plan for Capital Expenditures) to (b) Consolidated Fixed Charges, in each instance computed as provided in Section 6.24.1 and in accordance with Agreement Accounting Principles.

(b) Additions to ARTICLE I Definitions. Article I of the Credit Agreement is hereby supplemented to add the following definitions which shall read in their respective entirety as follows:

“First Amendment” means the 2004A Amendment to Loan Documents, dated as of June 1, 2004 among the Agent, the Guarantors and the Borrower.

“PSL” means any agreement between any Loan Party and a Person providing for a right to purchase or otherwise use seating accommodations in certain seating locations at the Borrower’s Property located on Central Avenue in Louisville, Kentucky, known as the Churchill Downs racetrack facility, and which agreement does not conflict with any of the Loan Documents, and/or result in a Default or Unmatured Default, and expressly does not result in, or require, the creation or imposition of any Lien in, leasehold interest in, rights in, claim to, easement or easement by estoppel over, or similar rights or interests in any Property of any such Loan Party, or result in, or require, the creation or imposition of any right to possess specific property (other than the contractual right to purchase or otherwise use the subject seating accommodations subject to the terms of such agreement).

“PSL Financing” means any instance in which, pursuant to a PSL Financing Program, a PSL Purchaser finances its obligations under a PSL, in whole or in part, and which does not conflict with any of the Loan Documents, and/or result in a Default or Unmatured Default.

“PSL Financing Program” means a financing arrangement program established by any Loan Party with a financial institution or other Person pursuant to which such financial institution or other Person agrees to finance, in whole or in part, PSL Purchasers’ obligations under the PSLs, and which arrangement does not conflict with any of the Loan Documents, and/or result in a Default or Unmatured Default.

“PSL Buyback/Guarantee” means any promise to repurchase or buy back, guarantee or otherwise provide credit support, directly or indirectly, given by any Loan Party in favor of any financial institution or other Person in connection with an obligation arising under a PSL Financing.

“PSL Purchaser” means the Person who enters into a PSL with any Loan Party.

(c) Amendment of Section 6.24.1—Fixed Charge Coverage Ratio. Section 6.24.1 of the Credit Agreement is hereby amended and restated to read in its entirety as follows:

6.24.1 Fixed Charge Coverage Ratio. The Borrower will not permit the Fixed Charge Coverage Ratio, determined as of the end of each of its fiscal quarters for the then most-recently ended four fiscal quarters, of (i) Consolidated Adjusted EBITDA less Capital Expenditures (excluding (a) Capital Expenditures consisting solely of consideration paid or payable for Permitted Acquisitions, and (b) Capital Expenditures expended under and in compliance with the Master Plan for Capital Expenditures), to (ii) Consolidated Fixed Charges, all calculated for the Loan Parties on a consolidated basis and in accordance with Agreement Accounting Principles, to be less than 1.35 to 1.0.

(d) Amendment of Section 6.34—Contingent Obligations. Section 6.34 of the Credit Agreement is hereby amended and restated in its entirety as follows:

6.34 Contingent Obligations. The Borrower will not, nor will it permit any Subsidiary (except for the Excluded Subsidiaries) to, make or suffer to exist any Contingent Obligation (including, without limitation, any Contingent Obligation with respect to the obligations of a Subsidiary), except (i) by endorsement of instruments for deposit or collection in the ordinary course of business, (ii) the Reimbursement Obligations, (iii) for the Guaranty; (iv) for PSL Buyback/Guarantee(s) not to exceed \$15,000,000 at any one time in the aggregate for all such PSL Buyback/Guarantees; and (v) guaranties of the obligations of Loan Parties not to exceed \$10,000,000 at any one time in the aggregate for all such guaranties.

3. Certain References in the Loan Documents.

(a) References to Bank One. All references in all Loan Documents to “Bank One, Kentucky, NA” and/or “Bank One” shall be deemed to be references to Bank One, NA, headquartered in Chicago, Illinois, with offices in Louisville, Kentucky.

(b) References to Loan Documents. All references in the Loan Documents to the “Loan Documents” shall be deemed to include a reference to this Amendment and any and all other agreements, instruments and documents executed and/or delivered in connection with this Amendment. All references to the “Credit Agreement” in the Loan Documents shall be deemed to include references to the Credit Agreement as amended by this Amendment.

4. Conditions Precedent. The obligation of the Lenders and the Agent to enter into this Amendment shall be conditioned upon the fulfillment of all the following conditions:

(a) Executed Agreements. The Borrower and the Guarantors shall have delivered to the Agent duly authorized and fully executed originals of this Amendment.

(b) Representations and Warranties. Each and every representation and warranty made by or on behalf of the Borrower and/or any Guarantor relating to this Amendment or any of the other Loan Documents, as modified by this Amendment shall be true, complete and correct on and as of the date of this Amendment and as of the date this Amendment is actually executed and delivered.

(c) No Defaults. There exists no Default or Unmatured Default.

(d) Other Documents. The Borrower shall have delivered to the Agent any and all other agreements, instruments and documents as the Agent may reasonably have requested in order to further protect its security or evidence compliance by the Borrower and /or any other Loan Party with this Amendment and the other Loan Documents.

(e) Agent's Fees and Expenses. The Borrower shall have paid to the Agent the Agent's fees and expenses as of the date of this Agreement in accordance with Section 7 of this Amendment and Section 9.6 of the Credit Agreement.

(f) Resolutions. The Borrower and the Guarantors shall have delivered certified copies of appropriate resolutions (1) authorizing the execution of this Amendment and any and all other documents, instruments and agreements referred to herein which are required to be executed and delivered by the Borrower and the Guarantors as appropriate, and (2) authorizing consummation of the transactions contemplated by this Amendment.

(g) Legal Opinion. The Agent shall have received the legal opinion of Wyatt, Tarrant & Combs, LLP as counsel for the Borrower and the Guarantors, and the legal opinion of Rebecca C. Reed, general counsel to the Borrower and the Guarantors, addressed to the Agent and the Lenders, dated the date this Amendment is delivered, satisfactory to the Agent and its counsel.

(h) Incumbency Certificates. The Agent shall have received certificates certifying the names of the Persons of the Borrower and the Guarantors authorized to sign this Amendment and the other Loan Documents that each has signed or will sign in connection with this Amendment, together with the true signatures of such Persons.

5. Reaffirmations and Consents. The Borrower and the Guarantors:

(a) Consent. Consent to the transactions contemplated in this Amendment.

(b) Reaffirm. Reaffirm their respective obligations under any and all of the Loan Documents and any and all other agreements, instruments and documents to which any of them is a party and under which any Lender has any rights or obligations and which is or may be related in any way to the agreements, instruments and documents mentioned in or affected by this Amendment, or the Credit Agreement or any of the other Loan Documents as amended by this Amendment.

(c) Agree. Agree that all of the Loan Documents remain in full force and effect, as expressly modified or altered by or in connection with this Amendment.

6. Representations and Warranties. To induce the Lenders and the Agent to enter into this Agreement, the Borrower and the Guarantor agree that the representations and warranties made by the Loan Parties, as set forth in the Credit Agreement as amended by this Amendment, are hereby remade and are incorporated by reference into this Amendment as if set out in full, *provided* that (a) Section 5.15 is modified to the effect that the Borrower holds withheld 401(k) plan deferrals, which are regularly withheld from employee paychecks and promptly deposited into the Borrower's 401(k) trust, and (b) Schedules 1, 2, 3, 5.22, 5.24, 5.25 and 5.26 to the Credit Agreement are amended, restated and replaced by Schedules 1, 2, 3, 5.22, 5.24, 5.25 and 5.26 to the Amendment, respectively. It is understood and agreed that any representation or warranty which operates as of a specific date by its terms shall be required to be true and correct only as of such specific date with respect to that operation.

7. Costs and Expenses. The Borrower agrees to reimburse the Agent for the costs and expenses incurred by the Agent and the Lenders in connection with the transactions contemplated by this Amendment, including, but not limited to, the reasonable fees and disbursements of counsel for the Agent and the Lenders incurred in preparing this Amendment and the documents to be executed pursuant to this Amendment all in accordance with Section 9.6 of the Credit Agreement.

8. Breach of This Agreement. Any failure of the Borrower or any other Loan Party to observe and perform all of the terms, conditions and provisions of this Amendment, which is not remedied within five days after written notice from Agent or any Lender, shall constitute a Default.

9. Miscellaneous.

(a) Entire Agreement. This Amendment and the agreements, instruments and other documents referred to herein, constitute the entire agreement of the parties with respect to, and supersede all prior understandings of the parties with respect to, the subject matter hereof and thereof. No change, modification, addition, or termination of this Amendment shall be enforceable unless in writing and signed by the party against whom enforcement is sought.

(b) Governing Law. This Amendment and the related writings and the respective rights and obligations of the parties shall be governed by, and construed and enforced in accordance with, the laws (without regard to conflicts of laws rules) of the Commonwealth of Kentucky, except to the extent the laws of any other state, province or country where security for the Loans is located dictate that the laws of such other state, province or country shall govern the enforcement of the rights of the Agent or any Lender in such security.

(c) Counterparts. Each party to this Amendment may sign upon a separate copy, in which case one counterpart of this Amendment shall consist of enough of such signed copies to reflect the signature of all parties hereto. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Amendment or the terms hereof to produce or account for more than one of such counterparts.

(d) Headings. The headings used in this Amendment have been included solely for ease of reference and shall not be considered in the interpretation or construction of this Amendment.

(e) Severability. If any court shall finally determine that any part, term or provision of this Amendment is in any way unenforceable, such part, term or provision shall be reduced to the extent necessary to make such provision enforceable to the greatest extent allowed by law. Consistent with the foregoing, if any provision of this Amendment or its application shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of all other applications of that provision and of all other provisions and applications of this Amendment shall not in any way be affected or impaired.

(f) Binding Effect. This Amendment shall be binding upon, and shall inure to the benefit of, the Lenders, the Agent, the Borrower, and the other Loan Parties, as well as their respective successors and assigns. Pursuant to the provisions of Section 8.2 of the Credit Agreement, the Agent enters into this Amendment with the consent in writing of the Required Lenders. Accordingly, this Amendment amends the Credit Agreement and other Loan Documents as and to the extent provided herein and is binding upon all of the Lenders.

(g) No Waiver or Course of Dealing. The execution and delivery of this Amendment by the Lenders and the Agent does not waive any right that the Lenders or the Agent might have under any of the Loan Documents except for the specific modifications, waivers, and amendments contained in this Amendment. Neither this Amendment, nor earlier amendments or modifications of any of the Loan Documents, creates any course of dealing among the Lenders, the Agent, the Loan Parties or any other Person, and none of the foregoing nor any other Person should infer that the Agent or any Lender will enter into any other or future amendment or modification of any of the Loan Documents in the future, whether similar or dissimilar to this Amendment.

(h) **CHOICE OF LAW. THE LOAN DOCUMENTS (OTHER THAN THOSE CONTAINING A CONTRARY EXPRESS CHOICE OF LAW PROVISION) SHALL BE CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (WITHOUT REGARD TO THE CONFLICT OF LAWS PROVISIONS) OF THE COMMONWEALTH OF KENTUCKY, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.**

(i) **CONSENT TO JURISDICTION.** THE LOAN PARTIES HEREBY IRREVOCABLY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR COMMONWEALTH OF KENTUCKY COURT SITTING IN LOUISVILLE, KENTUCKY IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT(S) AND THE LOAN PARTIES HEREBY IRREVOCABLY AGREE THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVE ANY OBJECTION THEY MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT, THE COLLATERAL AGENT, THE LC ISSUER OR ANY LENDER TO BRING PROCEEDINGS AGAINST ANY LOAN PARTY IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY ANY LOAN PARTY AGAINST THE AGENT, THE LC ISSUER OR ANY LENDER OR ANY AFFILIATE OF THE AGENT, THE LC ISSUER OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN LOUISVILLE, KENTUCKY.

(j) **WAIVER OF JURY TRIAL.** EACH LOAN PARTY, THE AGENT, THE LC ISSUER AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.

"Exhibits and schedules have been omitted because they are not material. Copies of such omitted exhibits and schedules will be supplementally furnished to the Commission upon request."



IN WITNESS WHEREOF, the parties have executed and delivered this Amendment as of the date set forth in the preamble hereto, but actually on the dates set forth below.

**CHURCHILL DOWNS INCORPORATED**

By /s/Michael E. Miller

Executive Vice President and Chief Financial Officer

June 30, 2004

**GUARANTORS:**

**CHURCHILL DOWNS MANAGEMENT COMPANY**

By /s/Michael E. Miller

Assistant Treasurer

June 30, 2004

**CHURCHILL DOWNS INVESTMENT**

By /s/Michael E. Miller

President

June 30, 2004

**RACING CORPORATION OF AMERICA**

By /s/Michael E. Miller

President

June 30, 2004

**CALDER RACE COURSE, INC.**

By /s/Michael E. Miller

Vice President

June 30, 2004

**TROPICAL PARK, INC.**

By /s/Michael E. Miller

Vice President

June 30, 2004

**CHURCHILL DOWNS CALIFORNIA COMPANY**

By /s/Michael E. Miller

Vice President

June 30, 2004

**ARLINGTON PARK RACECOURSE, LLC**

By /s/Michael E. Miller

Vice President

June 30, 2004

**ARLINGTON MANAGEMENT SERVICES, LLC**

By /s/Michael E. Miller

Vice President

June 30, 2004

**ARLINGTON OTB CORP.**

By /s/Mary Ann Guenther

Secretary

June 30, 2004

**Quad City Downs**

By /s/Mary Ann Guenther

Secretary

June 30, 2004

**CDIP, LLC**

By /s/Michael E. Miller

Vice President

June 30, 2004

**CDIP HOLDINGS, LLC**

By /s/Michael E. Miller

Vice President

June 30, 2004

**ELLIS PARK RACE COURSE, INC.**

By /s/Michael E. Miller

Vice President

June 30, 2004

**BANK ONE, NA,**  
as a Lender and as Agent

By /s/H. Joseph Brenner  
H. Joseph Brenner  
First Vice President

Date: June 30, 2004

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A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS  
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June 25, 2004

BY HAND

Jan M. Hayden, Esq.  
Douglas S. Draper, Esq.  
Heller, Draper, Hayden, Patrick & Horn, L.L.C.  
650 Poydras Street, Suite 2500  
New Orleans, LA 70130

RE: Fair Grounds Corporation, Debtor  
U.S.B.C., E.D. of La., No. 03–16222, “A”  
Chapter 11

Dear Jan and Doug:

Reference is made to the enclosed draft of the First Amended and Restated Plan of Reorganization (“Plan”) and the Asset Purchase Agreement (“APA”) which have been the subject of recent negotiations between Churchill Downs Incorporated and its permitted assigns (“Churchill”) and Fair Grounds Corporation (“Debtor”). The Plan and APA are incorporated herein by reference, and capitalized terms herein shall have the same definitions ascribed to such terms in the Plan and the APA.

Churchill hereby proposes that it or a wholly owned subsidiary will act as the stalking horse bidder under the Plan for the Debtor’s Acquired Assets in accordance with and subject to the following principal terms and conditions:

- **Purchase Price:** \$45 million.
- **Execution of Necessary Documentation:** Subject to the execution of definitive and mutually satisfactory legal documentation for the transaction, including without limitation (i) the APA (a copy of which is enclosed) as may be amended by the mutual agreement of the Debtor and Churchill, and (ii) the Plan (a copy of which is enclosed) as may be amended by the mutual agreement of the Debtor and Churchill.
- **Closing Date:** On the Effective Date of the Plan as defined therein.

- **Bankruptcy Approval:** Entry by the U. S. Bankruptcy Court, Eastern District of Louisiana (the "Bankruptcy Court"), in Case No. 03-16222, Section A (the "Bankruptcy Case") on or before September 1, 2004, or such later date as may be agreed to by the Debtor and Churchill, of a final and unappealable Order (the form of which is subject to Churchill's approval) confirming the Plan as may be amended by the mutual agreement of the Debtor and Churchill.
- **Sale and Bidding Procedures:** The Bidding Procedures, as defined in the Plan, shall govern the submission of Qualified Bids and the bidding at the auction required by the Plan. The Debtor shall file a motion to approve the Bidding Procedures, the form of the APA, and the Expense Reimbursement, as defined herein, no later than June 30, 2004. An order approving the Bidding Procedures, the form of the APA, and the Expense Reimbursement, as defined herein, shall be entered on or before July 31, 2004, and the form of such order shall be subject to Churchill's approval.
- **Expense Reimbursement:** In the event that Churchill is not the Winning Bidder, Churchill shall be reimbursed its fees, expenses and costs, including those of its investment banker and legal counsel, incurred for this transaction, in an amount not to exceed \$250,000 on the Effective Date of the Plan to compensate Churchill for its out-of-pocket expenses, which amount shall be deemed an Allowed Administrative Claim and paid by the Debtor on the Effective Date ("Expense Reimbursement"). .
- **Conditions:** Churchill's proposal shall be subject to all of the conditions set forth below and in the Plan and the APA.

**Due Diligence:** Churchill's proposal is subject to the completion of its due diligence regarding the Acquired Assets on or before July 31, 2004, which due diligence shall be satisfactory to Churchill in its sole discretion, with this condition invoked or waived by that date. The Debtor shall deliver the Disclosure Letter as required by the APA to Churchill on or before July 21, 2004, the contents of which must be satisfactory to Churchill, in its sole discretion. The Debtor will (i) permit (and will cause each of its Subsidiaries to permit) representatives of Churchill to have full access at all reasonable times, and in a manner so as not to interfere with the normal business operations of the Debtor and its Subsidiaries, to the Acquired Assets and all books, records (including tax records), contracts, and documents of or pertaining to the Debtor and its Subsidiaries. The Debtor will promptly furnish Churchill with such financial and operating data and other information with respect to the Business and the Acquired Assets as Churchill may from time to time reasonably request. For purposes of this Agreement, Churchill will treat and hold as such any confidential

- information it receives from the Debtor and its Subsidiaries in the course of the reviews contemplated by this paragraph (except any disclosure required by law or order of court or other governmental agency, or the rules and regulations of the Securities and Exchange Commission or the Nasdaq Stock Market), will not use any of the confidential information except in connection with the consummation of the agreements contemplated herein, and, if Churchill is not the Winning Bidder or the APA is terminated for any reason whatsoever, will return to Debtor and its Subsidiaries all tangible embodiments (and all copies) of the confidential information which are in its possession. **Notwithstanding** anything to the contrary herein, in no event shall the Debtor be required to provide: (i) materials that would result in a waiver of the attorney client privilege with respect to the State Court Case, the State Claim, or the Annulment Action; (ii) attorney work product; or (iii) materials that are subject to confidentiality agreements with third parties unless Churchill first obtains the consent of such third parties to the disclosure of said materials.

**Lender Approval:** Churchill's proposal is subject to approval of its principal lenders of Churchill's acquisition of the Acquired Assets, such approval to be obtained on or before July 31, 2004 with this condition invoked or waived by that date.

**Acceptance of Suitability Requirements:** Churchill's proposal is subject to the shareholders, officers and directors who are subject to the suitability requirements under the applicable licensing and permit provisions of Louisiana law concurring to comply with such laws, such concurrence to be obtained on or before June 30, 2004 with this condition invoked or waived by that date.

This proposal shall remain in effect until 5:30 p.m. central time today, Friday, June 25, 2004 and shall terminate unless this proposal is signed and returned prior to this time and date. Churchill is prepared to complete negotiations of all required definitive documents and to complete its due diligence after execution of this proposal. If the terms and conditions of this proposal are acceptable, please indicate your acceptance by signing below and returning the signed copy to me by facsimile at (504) 584-9142.

If you have any questions, please do not hesitate to call me at (504) 585-6388.

Sincerely,  
**LEMLE & KELLEHER, L.L.P.**

/s/David F. Waguespack  
David F. Waguespack



The foregoing terms and conditions are agreed upon and approved.

**FAIR GROUNDS CORPORATION**

By: /s/Douglas S. Draper  
Title: Its Attorney

**CHURCHILL DOWN INCORPORATED**

By: /s/Michael E. Miller  
Title: Chief Financial Officer

---

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FAX: (318) 227-1141

June 29, 2004

BY HAND

Jan M. Hayden, Esq.  
Douglas S. Draper, Esq.  
Heller, Draper, Hayden, Patrick & Horn, L.L.C.  
650 Poydras Street, Suite 2500  
New Orleans, LA 70130

RE: Fair Grounds Corporation, Debtor  
U.S.B.C., E.D. of La., No. 03–16222, “A”  
Chapter 11

Dear Jan and Doug:

As I discussed with Jan yesterday, Churchill Downs Incorporated ("Churchill") requires additional time to obtain a particular shareholder's consent to submit to the suitability requirements for slots and video poker licenses. Accordingly, Churchill requests that Fair Grounds Corporation ("Debtor") agree to amend the letter agreement ("Letter Agreement") dated June 25, 2004 by and between Churchill and the Debtor to extend the time within which Churchill must invoke or waive the acceptance of suitability requirements condition from June 30, 2004 to July 8, 2004. The terms of the Letter Agreement would remain the same except that the acceptance of suitability requirements condition would be amended to provide as follows:

**Acceptance of Suitability Requirements:** Churchill's proposal is subject to the shareholders, officers and directors who are subject to the suitability requirements under the applicable licensing and permit provisions of Louisiana law concurring to comply with such laws, such concurrence to be obtained on or before July 8, 2004 with this condition invoked or waived by that date.

If the terms of this amendment to the Letter Agreement are acceptable, please indicate your acceptance by signing below and returning the signed copy to me by hand or by facsimile at (504) 584-9142.

---

If you have any questions, please do not hesitate to call me at (504) 585-6388.

Sincerely,  
**LEMLE & KELLEHER, L.L.P.**

/s/David F. Waguespack  
David F. Waguespack

The foregoing terms and conditions are agreed upon and approved.

**FAIR GROUNDS CORPORATION**

By: /s/Jan M. Hayden  
Title: one of its Attorneys

**CHURCHILL DOWN INCORPORATED**

By: /s/Michael E. Miller  
Title: Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas H. Meeker, certify that:

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

Date: August 5, 2004

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Michael E. Miller, certify that:

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

Date: August 5, 2004

/s/ Michael E. Miller  
Michael E. Miller  
Executive Vice President and  
Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Churchill Downs Incorporated (the "Company") for the quarterly period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Thomas H. Meeker, as President and Chief Executive Officer of the Company, and Michael E. Miller, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge, that:

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

/s/Thomas H. Meeker  
Thomas H. Meeker  
President and Chief Executive Officer  
August 5, 2004

/s/ Michael E. Miller  
Michael E. Miller  
Executive Vice President and Chief Financial Officer  
August 5, 2004

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

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