

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, 1999

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 X No _____

The number of shares outstanding of registrant's common stock at August 13, 1999 was 9,832,127 shares.

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CHURCHILL DOWNS INCORPORATED

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

ASSETS	June 30, 1999 ----	December 31, 1998 ----	June 30, 1998 ----
Current assets:			
Cash and cash equivalents	\$ 21,927,123	\$ 6,379,686	\$ 7,952,835
Accounts receivable	14,652,743	11,968,114	14,436,397
Other current assets	1,670,492	1,049,084	363,734
	-----	-----	-----
Total current assets	38,250,358	19,396,884	22,752,966
Other assets			
Plant and equipment, net	8,947,247	3,796,292	4,452,913
Intangible assets, net	133,461,131	83,088,204	84,663,446
	62,268,627	8,369,395	9,488,088
	-----	-----	-----
	\$242,927,363	\$114,650,775	\$121,357,413
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 14,717,921	\$ 6,530,502	\$ 11,375,368
Accrued expenses	16,937,491	8,098,228	9,359,247
Dividends payable	-	3,762,521	-
Income taxes payable	7,678,956	257,588	7,110,768
Deferred revenue	3,362,318	8,412,552	2,307,262
Long-term debt, current portion	479,202	126,812	122,801
	-----	-----	-----
Total current liabilities	43,175,888	27,188,203	30,275,446
Long-term debt, due after one year	103,271,284	13,538,027	8,728,963
Other liabilities	4,553,890	1,755,760	4,099,794
Deferred income taxes	15,982,069	6,937,797	8,000,643
Shareholders' equity:			
Preferred stock, no par value; authorized, 250,000 shares; issued, none	-	-	-
Common stock, no par value; authorized, 20,000,000 shares, issued 7,525,041 shares, June 30, 1999 and December 31, 1998 and 7,516,934 shares, June 30, 1998	8,926,975	8,926,975	8,808,613
Retained earnings	67,254,715	56,598,957	61,796,384
Deferred compensation costs	(172,458)	(229,944)	(287,430)
Note receivable for common stock	(65,000)	(65,000)	(65,000)
	-----	-----	-----
	75,944,232	65,230,988	70,252,567
	-----	-----	-----
	\$242,927,363	\$114,650,775	\$121,357,413
	=====	=====	=====

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

CHURCHILL DOWNS INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
for the six and three months ended June 30, 1999 and 1998
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	1999	1998	1999	1998
Net revenues	\$101,802,751	\$82,759,503	\$84,139,825	\$67,374,352
Operating expenses	74,819,679	58,336,648	55,662,526	42,337,520
	-----	-----	-----	-----
Gross profit	26,983,072	24,422,855	28,477,299	25,036,832
Selling, general and administrative expenses	6,889,501	4,972,595	3,586,386	2,816,841
	-----	-----	-----	-----
Operating income	20,093,571	19,450,260	24,890,913	22,219,991
	-----	-----	-----	-----
Other income (expense):				
Interest income	362,233	362,305	214,802	173,035
Interest expense	(2,208,832)	(405,297)	(1,773,367)	(300,773)
Miscellaneous, net	125,025	166,186	80,908	49,131
	-----	-----	-----	-----
	(1,721,574)	123,194	(1,477,657)	(78,607)
	-----	-----	-----	-----
Earnings before income tax provision	18,371,997	19,573,454	23,413,256	22,141,384
	-----	-----	-----	-----
Federal and state income tax provision	(7,716,239)	(7,620,000)	(9,747,362)	(8,618,900)
	-----	-----	-----	-----
Net earnings	\$ 10,655,758	\$11,953,454	\$13,665,894	\$13,522,484
	=====	=====	=====	=====
Net earnings per share:				
Basic	\$1.42	\$1.62	\$1.82	\$1.81
Diluted	\$1.39	\$1.61	\$1.79	\$1.79
Weighted average shares outstanding:				
Basic	7,525,041	7,395,387	7,525,041	7,472,978
Diluted	7,670,520	7,438,018	7,649,420	7,546,183

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

CHURCHILL DOWNS INCORPORATED CONDENSED
CONSOLIDATED STATEMENTS OF CASH FLOWS for the six
months ended June 30, 1999 and 1998
(Unaudited)

	Six Months Ended June 30 1999	1998
Cash flows from operating activities:		
Net earnings	\$10,655,758	\$11,953,454
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	4,510,995	2,551,573
Deferred compensation	150,392	84,216
Deferred income taxes	(100,781)	-
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Accounts receivable	(2,022,241)	(6,428,673)
Other current assets	(38,939)	302,756
Accounts payable	7,894,379	3,694,371
Accrued expenses	2,748,996	681,115
Income taxes payable	7,421,368	6,924,126
Deferred revenue	(5,050,234)	(5,071,986)
Other assets and liabilities	(33,738)	1,007,463
	26,135,955	15,698,415
Cash flows from investing activities:		
Additions to plant and equipment, net	(8,079,580)	(2,181,257)
Prepaid acquisition costs - Hollywood Park	(322,799)	-
Acquisition of business, net of cash acquired	(85,324,542)	(17,232,849)
	(93,726,921)	(19,414,106)
Cash flows from financing activities:		
Increase (decrease) in long-term debt, net	(994,698)	46,761
Borrowings on bank line of credit	119,000,000	16,000,000
Repayments of bank line of credit	(30,000,000)	(10,000,000)
Payment of loan origination costs	(2,655,794)	-
Dividends paid	(3,762,521)	(3,658,468)
Contribution by minority interest in subsidiary	1,551,416	-
	83,138,403	2,388,293
Net increase (decrease) in cash and cash equivalents		
	15,547,437	(1,327,398)
Cash and cash equivalents, beginning of period	6,379,686	9,280,233
	\$21,927,123	\$ 7,952,835
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$1,650,000	\$410,652
Income taxes	\$775,000	\$539,000
Noncash transaction:		
Issuance of common stock related to the acquisition of RCA	-	\$4,850,000
Accrued acquisition costs related to Hollywood Park	\$1,668,672	-

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

CHURCHILL DOWNS INCORPORATED
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 1999 and 1998 (continued)
(Unaudited)

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 generally accepted accounting principles 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 generally accepted accounting principles. Accordingly, the reader of this Form 10-Q may wish to refer to the Company's Form 10-K for the period ended December 31, 1998 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. In the opinion of management, all adjustments necessary for a fair presentation of this information have been made and all such adjustments are of a normal recurring nature.

Because of the seasonal nature of the Company's business, revenues and operating results for any interim quarter are not indicative of the revenues and operating results for the year and are not necessarily comparable with results for the corresponding period of the previous year. The accompanying condensed consolidated financial statements reflect a disproportionate share of annual net earnings as the Company normally earns a substantial portion of its net earnings in the second quarter of each year during which the Kentucky Derby and Kentucky Oaks are run. The Kentucky Derby and Kentucky Oaks are run on the first weekend in May.

2. Long-Term Debt

On April 23, 1999, the Company increased its line of credit to \$250 million under a new revolving loan facility through a syndicate of banks headed by its principal lender to meet working capital and other short-term requirements and to provide funding for acquisitions, including the pending acquisition of Hollywood Park Race Track. This credit facility replaced a \$100 million line of credit obtained during the third quarter of 1998. The interest rate on the borrowing is based upon LIBOR plus 75 to 250 additional basis points, which is determined by certain Company financial ratios. There was \$100.0 million outstanding on the line of credit at June 30, 1999 compared to \$11.0 million outstanding at December 31, 1998 and \$6.0 million outstanding at June 30, 1998 under previous lines of credit. The line of credit is secured by substantially all of the assets of the Company and its wholly owned subsidiaries, and matures in 2004.

3. Reclassification

Certain prior period financial statement amounts have been reclassified to conform to the current period presentation.

CHURCHILL DOWNS INCORPORATED
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 1999 and 1998 (continued)
(Unaudited)

4. Acquisitions

On May 5, 1999, the Company entered into a definitive agreement with Hollywood Park, Inc. to acquire the Hollywood Park Race Track and the Hollywood Park Casino in Inglewood, California, for approximately \$140.0 million plus acquisition costs which approximate \$2.0 million as of June 30, 1999. Consummation of the acquisition is subject to several conditions, including receipt of regulatory approvals. The Company will acquire approximately 240 acres of land upon which the racetrack and casino are located. The Company will lease the Hollywood Park Casino to Hollywood Park, Inc. under a ten-year lease with one ten-year renewal option. The lease provides for annual rent of \$3.0 million, subject to adjustment during the renewal period. The transaction is expected to close on August 31, 1999.

On April 23, 1999, the Company acquired all of the outstanding stock of Calder Race Course, Inc. and Tropical Park, Inc. from KE Acquisition Corporation for a purchase price of \$86 million cash plus a closing net working capital adjustment of approximately \$2.9 million cash and \$0.6 million in transaction costs. The purchase included Calder Race Course in Miami and the licenses held by Calder Race Course, Inc. and Tropical Park, Inc. to conduct horse racing at Calder Race Course. Calder Race Course, one of four Thoroughbred tracks in Florida, offers live racing and simulcast- only days during two consecutive race meets, which run from late May through early January. The purchase price of \$89.5 million was allocated to the acquired assets and liabilities based on their fair values on the acquisition date with the excess of \$48.7 million being recorded as goodwill, which is being amortized over 40 years. The acquisition was accounted for by the Company under the purchase method of accounting and, accordingly, the financial position and results of operations of Calder Race Course, Inc. and Tropical Park, Inc. have been included in the Company's consolidated financial statements since the date of acquisition. The purchase price allocation above is preliminary and may require adjustment in the Company's future financial statements based on a final determination of liabilities assumed in the acquisition.

On April 21, 1998, the Company acquired from TVI Corp., ("TVI") all of the outstanding stock of Racing Corporation of America ("RCA") for a purchase price of \$22.6 million, which includes transaction costs of \$0.6 million. RCA owns and operates Ellis Park Race Course in Henderson, Kentucky, and the Kentucky Horse Center, a training facility located in Lexington, Kentucky. As part of the transaction, TVI received 200,000 shares of the Company's common stock valued at \$4.9 million with the remaining balance of \$17.1 million paid from cash on hand and a draw on the Company's bank line of credit. The purchase price of \$22.6 million was allocated to the

CHURCHILL DOWNS INCORPORATED
 CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 for the six months ended June 30, 1999 and 1998 (continued)
 (Unaudited)

acquired assets and liabilities based on their fair values on the acquisition date with the excess of \$6.4 million being recorded as goodwill, which is being amortized over 40 years. The acquisition was accounted for by the Company under the purchase method of accounting and, accordingly, the results of operations of RCA subsequent to April 20, 1998, are included in the Company's consolidated results of operations.

Following are the unaudited pro forma results of operations as if the April 23, 1999 acquisition of Calder Race Course and the April 21, 1998 acquisition of Racing Corporation of America had occurred on January 1, 1998 (in thousands, except per share and share amounts):

	Six Months Ended June 30, 1999 -----	Six Months Ended June 30, 1998 -----
Net revenues	\$105,378	\$97,318
Net earnings	\$8,553	\$7,346
Earnings per common share:		
Basic	\$1.14	\$0.99
Diluted	\$1.11	\$0.98
Weighted average shares		
Basic	7,525,041	7,455,387
Diluted	7,670,520	7,498,018

This unaudited pro forma financial information is not necessarily indicative of the operating results that would have occurred had the transactions been consummated as of January 1, 1998, nor is it necessarily indicative of future operating results.

On January 13, 1999, the Company acquired a 60% interest in Charlson Broadcast Technologies, LLC ("CBT") for \$3.1 million and made an additional equity contribution to CBT in the amount of \$2.3 million. CBT's total assets and liabilities were \$2.1 million and \$2.2 million, respectively, on the date of acquisition. The purchase price was allocated to the fair value of net assets acquired, with the excess of \$3.2 million being amortized over periods of 5 and 20 years based on the nature of the intangibles acquired. The acquisition was accounted for by the Company under the purchase method of accounting and, accordingly, the financial position and results of operations have been included in the Company's consolidated financial statements since the date of acquisition.

CHURCHILL DOWNS INCORPORATED
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 1999 and 1998 (continued)
(Unaudited)

5. Earnings Per Share

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

	Six months ended June 30,		Three months ended June 30,	
	1999	1998	1999	1998
Earnings (numerator) amounts used for basic and diluted per share computations:	\$10,655,758	\$11,953,454	\$13,665,894	\$13,522,484
	-----	-----	-----	-----
Weighted average shares (denominator) of common stock outstanding per share:				
Basic	7,525,041	7,395,387	7,525,041	7,472,978
Plus dilutive effect of outstanding stock options	145,479	42,631	124,379	73,205
	-----	-----	-----	-----
Diluted	7,670,520	7,438,018	7,649,420	7,546,183
Basic net earnings per share	\$1.42	\$1.62	\$1.82	\$1.81
Diluted net earnings per share	\$1.39	\$1.61	\$1.79	\$1.79

Options to purchase 51,766 shares for the three and six months ended June 30, 1999 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 share.

On July 20, 1999, the Company issued 2,300,000 shares of common stock. If these shares had been outstanding in the periods presented above, it would have materially impacted the number of potential common shares outstanding and basic and diluted net earnings per share at the end of the periods.

6. Segment Information

The Company has adopted SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information." The Company has determined that it currently operates in the following five segments: (1) Churchill Downs racetrack, the Louisville Sports Spectrum simulcast facility and Churchill Downs corporate expenses (2) Calder Race Course (3) Ellis Park racetrack and its on-site simulcast facility, (4) Hoosier Park racetrack and its on-site simulcast facility and the other three Indiana simulcast facilities and (5) Other operations. Hollywood Park Race Track will be included as a segment after the expected third quarter acquisition.

CHURCHILL DOWNS INCORPORATED
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for
the six months ended June 30, 1999 and 1998 (continued)
(Unaudited)

Most of the Company's revenues are generated from commissions on pari-mutuel wagering at the Company's racetracks and simulcast wagering facilities, as well as Indiana riverboat admissions revenue, simulcast fees, admissions and concessions revenue and other sources. Other operations include Kentucky Horse Center, Charlson Broadcast Technologies, LLC and the Company's investments in various other business enterprises. The Company's equity interest in the net income of equity method investees is not material. Eliminations include the elimination of management fees and other intersegment transactions.

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" in the Company's annual report to stockholders for the year ended December 31, 1998. EBITDA should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with GAAP) as a measure of our operating results or cash flows (as determined in accordance with GAAP) or as a measure of our liquidity.

CHURCHILL DOWNS INCORPORATED
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for
the six months ended June 30, 1999 and 1998 (continued)
(Unaudited)

The table below presents information about reported segments for the six months and three months ended June 30, 1999 and 1998:

Segment Information (in thousands)
Six Months Ended June 30, 1999 and 1998

	Churchill Downs	Calder Race Course	Hoosier Park	Ellis Park	Other operations	Elimina- tions	Total
Net Revenues							
1999	61,133	11,701	24,258	2,963	2,711	(963)	101,803
1998	59,229	-	21,892	1,298	947	(606)	82,760
EBITDA							
1999	19,469	1,888	3,387	(803)	661	-	24,602
1998	19,163	-	3,007	(429)	427	-	22,168
Operating income (loss)							
1999	17,666	1,302	2,766	(1,450)	(190)	-	20,094
1998	17,297	-	2,457	(629)	325	-	19,450
Total Assets							
1999	191,894	108,593	34,737	23,031	171,655	(286,983)	242,927
1998	93,186	-	32,492	19,746	68,487	(92,554)	121,357

Three Months Ended June 30, 1999 and 1998

	Churchill Downs	Calder Race Course	Hoosier Park	Ellis Park	Other operations	Elimina- tions	Total
Net Revenues							
1999	56,490	11,701	13,310	1,797	1,497	(655)	84,140
1998	53,862	-	11,874	1,298	613	(272)	67,375
EBITDA							
1999	23,944	1,888	1,709	(421)	332	-	27,452
1998	22,514	-	1,353	(429)	224	-	23,662
Operating income (loss)							
1999	23,056	1,302	1,389	(748)	(108)	-	24,891
1998	21,640	-	1,078	(629)	131	-	22,220

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

(in thousands)	Six Months ended June 30,		Three Months ended June 30,	
	1999	1998	1999	1998
Total EBITDA	\$24,602	\$22,168	\$27,452	\$23,662
Depreciation and amortization	(4,384)	(2,552)	(2,481)	(1,393)
Interest income (expense), net	(1,846)	(43)	(1,558)	(128)
Earnings before provision for income taxes	\$18,372	\$19,573	\$23,413	\$22,141

CHURCHILL DOWNS INCORPORATED
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for
the six months ended June 30, 1999 and 1998 (continued)
(Unaudited)

7. Subsequent Events

On July 20, 1999 the Company issued 2,300,000 shares of the Company's common stock at a price of \$29 per share. The total proceeds before offering expenses were \$63.2 million, and were used for the repayment of bank borrowings.

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

Information set forth in this discussion and analysis contain various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. These statements represent our judgment concerning the future and are subject to risks and uncertainties that could cause our actual operating results and financial condition to differ materially. Forward-looking statements are typically identified by the use of terms such as "may," "will," "expect," "anticipate," "estimate," 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 impact of competition from alternative gaming (including lotteries and riverboat and cruise ship casinos) in those markets in which we operate; a substantial change in law or regulations affecting our gaming activities; a substantial change in allocation of live racing days; a decrease in riverboat admissions revenue from our Indiana operations; our continued ability to effectively compete for the country's top horses and trainers necessary to field high-quality horse racing; our ability to execute our acquisition strategy and to complete or successfully operate planned expansion projects; our ability to adequately integrate acquired businesses; the loss of our totalisator companies or their inability to keep their technology current; our accountability for environmental contamination; Year 2000 computer issues; the loss of key personnel and the volatility of our stock price.

Overview

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

We own and operate the Churchill Downs racetrack in Louisville, Kentucky, which has conducted Thoroughbred racing since 1875 and is internationally known as home of the Kentucky Derby. We also own and operate Calder Race Course, a Thoroughbred racetrack in Miami, Florida; Ellis Park Race Course, a Thoroughbred racetrack in Henderson, Kentucky ("Ellis Park"); and Kentucky Horse Center, a Thoroughbred training center in Lexington, Kentucky. Additionally, we are the majority owner and operator of Hoosier Park in Anderson, Indiana, which conducts Thoroughbred, Quarter Horse and Standardbred horse racing. We conduct simulcast wagering on horse racing in Louisville, Kentucky, and at our three simulcast wagering facilities in Indianapolis, Merrillville and Fort Wayne, Indiana, as well as at our racetracks.

Because of the seasonal timing of our racing meets, revenues and operating results for any interim quarter are not indicative of the revenues and operating results for the year and are not necessarily comparable with results for the corresponding period of the previous year.

CHURCHILL DOWNS INCORPORATED
ITEM2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

Our primary sources of revenue are commissions and fees earned from pari-mutuel wagering on live and simulcast horse races. Other sources of revenue include admissions and seating, riverboat admission tax subsidy, concession commissions primarily for the sale of food and beverages, sponsorship revenues, licensing rights and broadcast fees.

RESULTS OF OPERATIONS

Pari-mutuel wagering for our four live racing facilities and four separate simulcast wagering facilities during the six months ended June 30, 1999 and 1998 is as follows:

	(\$ in thousands, except for number of days)			
	Churchill Downs racetrack	Calder Race Course**	Hoosier Park	Ellis Park*
Live racing				
1999 handle	\$93,689	\$35,225	\$5,546	\$596
1999 no. of days	47	29	67	2
1998 handle	\$95,951	\$35,785	\$4,924	\$342
1998 no. of days	47	30	54	1
Export simulcasting				
1999 handle	\$336,344	\$68,409	\$9,593	\$4,736
1999 no. of days	47	41	67	2
1998 handle	\$303,951	\$67,654	\$9,170	\$1,531
1998 no. of days	47	41	54	1
Import simulcasting				
1999 handle	\$55,258	-	\$69,262	\$23,894
1999 no. of days	101	-	581	179
1998 handle	\$62,041	-	\$66,617	\$23,481
1998 no. of days	98	-	589	177

* Pari-mutuel wagering information for Ellis Park is provided for the six months ended June 30, 1999 and 1998. However, only revenues generated since its acquisition on April 21, 1998 have been included in the Company's results of operations.

**Pari-mutuel wagering information for Calder Race Course is provided for the six months ended June 30, 1999 and 1998. However, only revenues generated since its acquisition on April 23, 1999 have been included in the Company's results of operations.

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

Six Months Ended June 30, 1999 Compared to Six Months Ended June 30, 1998

Net Revenues

Net revenues during the six months ended June 30, 1999 increased \$19.0 million (23%) from \$82.8 million in 1998 to \$101.8 million in 1999. Churchill Downs racetrack revenues increased \$1.9 million (3%) primarily due to an increase in corporate sponsor event ticket prices, admissions and seat revenue, concessions, and program revenue as a result of record attendance on Kentucky Oaks and Kentucky Derby days. Calder Race Course contributed \$11.7 million to the first six months of 1999 net revenues as opposed to none in the prior year. Hoosier Park revenues increased \$2.4 million (11%) primarily due to a \$1.8 million increase in the riverboat gross admissions subsidy of which a portion was required to be spent on purses and marketing expenses. Net revenues for Ellis Park for the first six months of 1999 increased \$1.7 million (128%) primarily due to the timing of the acquisition. Other operations, including the 1999 acquisition of Charlson Broadcasting Technologies the 1998 acquisition of Kentucky Horse Center and intercompany eliminations, comprised the remaining \$1.3 million of the increase.

Operating Expenses

Operating expenses increased \$16.5 million (28%) from \$58.3 million in 1998 to \$74.8 million in 1999. Churchill Downs racetrack's operating expenses increased \$1.0 million (3%). Calder Race Course incurred 1999 operating expenses of \$9.9 million versus none in the first six months of 1998. Hoosier Park operating expenses increased \$2.1 million (11%) due primarily to required increases in purses and marketing expenses related to the riverboat admissions subsidy. Ellis Park operating expenses increased \$2.2 million (131%) for the first six months of 1999 as compared to expenses after the acquisition date of April, 21 1998 for the prior year. Other operations, including Charlson Broadcasting Technologies, Kentucky Horse Center and intercompany eliminations, accounted for the remaining \$1.3 million of the increase in operating expenses.

Gross Profit

Gross profit increased \$2.6 million from \$24.4 million in 1998 to \$27.0 million in 1999. The increase in gross profit was primarily the result of the current year acquisition of Calder Race Course and the increase in gross profit for Churchill Downs racetrack due to record attendance on Kentucky Oaks and Kentucky Derby days.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by \$1.9 million (38%) from \$5.0 million in 1998 to \$6.9 million in 1999. SG&A expenses at Churchill Downs increased \$0.6 million (15%) due primarily to increased corporate staffing and compensation expenses reflecting the

CHURCHILL DOWNS INCORPORATED
ITEM2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

Company's strengthened corporate services to meet the needs of new business units. The acquisition of Calder Race Course contributed \$0.5 million and the second quarter of 1998 acquisition of Ellis Park contributed \$0.3 million of the increase. Other operations, including Charlson Broadcast Technologies, LLC and Kentucky Horse Center, accounted for remaining \$0.5 million of the increase in SG&A expenses.

Other Income and Expense

Interest expense increased \$1.8 million from \$0.4 million in 1998 to \$2.2 million in 1999 primarily as a result of borrowings to finance the acquisition of Calder Race Course and Charlson Broadcast Technologies, LLC in 1999 and the acquisition of Ellis Park in April 1998.

Income Tax Provision

Our income tax provision increased by \$0.1 million for the six months ended June 30, 1999 as compared to June 30, 1998 as a result of an increase in the estimated effective tax rate from 38.9% in 1998 to 42.0% in 1999 due primarily to non-deductible amortization expense related to the acquisitions of Calder Race Course in April 1999, Charlson Broadcast Technologies, LLC in January 1999 and Ellis Park and Kentucky Horse Center in April 1998 offset by a decrease in pre-tax earnings of \$1.2 million.

Three Months Ended June 30, 1999 Compared to Three Months Ended June 30, 1998

Net Revenues

Net revenues during the three months ended June 30, 1999 increased \$16.7 million (25%) from \$67.4 million in 1998 to \$84.1 million in 1999. Churchill Downs racetrack revenues increased \$2.6 million (5%) primarily due to \$1.9 million of increased revenues on the Kentucky Oaks and Kentucky Derby days. Calder Race Course contributed \$11.7 million to the three months ended June 30, 1999 net revenues as opposed to none in the prior year. Hoosier Park revenues increased \$1.4 million (12%) primarily due to a \$1.0 million increase in the riverboat gross admissions subsidy of which a portion was required to be spent on purses and marketing expenses. Net revenues for Ellis Park for the second quarter of 1999 increased by \$0.5 million (38%). Other operations, including the 1999 acquisition of Charlson Broadcasting Technologies and intercompany eliminations, comprised the remaining \$0.5 million of the increase.

Operating Expenses

Operating expenses increased \$13.4 million (32%) from \$42.3 million in 1998 to \$55.7 million in 1999. Churchill Downs racetrack operating expenses increased \$1.0 million (3%). Calder Race Course incurred 1999 operating expenses of \$9.9 million versus none in the second quarter of 1998. Hoosier

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

Park operating expenses increased \$1.2 million (11%) due primarily to required increases in purses and marketing expenses related to the riverboat admissions subsidy. Ellis Park operating expenses increased \$0.6 million (36%) for the second quarter of 1999 as compared to expenses after the acquisition date of April 21, 1998 for the prior year, consistent with the increase in revenues. Other operations, including Charlson Broadcasting Technologies, Ellis Park and intercompany eliminations, accounted for the remaining \$0.7 million of the increase in operating expenses.

Gross Profit

Gross profit increased \$3.5 million from \$25.0 million in 1998 to \$28.5 million in 1999. The increase in gross profit was primarily the result of the current year acquisition of Calder Race Course and the increase in gross profit for Churchill Downs racetrack due to record attendance on Kentucky Oaks and Kentucky Derby days.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by \$0.8 million (29%) from \$2.8 million in 1998 to \$3.6 million in 1999. SG&A expenses at Churchill Downs increased \$0.2 million (9%) due primarily to increased corporate staffing and compensation expenses reflecting the Company's strengthened corporate services to meet the needs of new business units. The acquisition of Calder Race Course contributed \$0.5 million. Other operations accounted for remaining \$0.1 million of the increase in SG&A expenses.

Other Income and Expense

Interest expense increased \$1.5 million from \$0.3 million in 1998 to \$1.8 million in 1999 primarily as a result of borrowings to finance the acquisition of Calder Race Course and Charlson Broadcast Technologies, LLC in 1999 and the acquisition of Ellis Park in April 1998.

Income Tax Provision

Our income tax provision increased by \$1.1 million for the three months ended June 30, 1999 as compared to June 30, 1998 as a result of an increase in pre-tax earnings of \$1.3 million and an increase in the estimated effective tax rate from 38.9% in 1998 to 41.6% in 1999 due primarily to non-deductible amortization expense related to the acquisitions of Calder Race Course in April 1999, Charlson Broadcast Technologies, LLC in January 1999 and Ellis Park and Kentucky Horse Center in April 1998.

CHURCHILL DOWNS INCORPORATED
ITEM2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

Significant Changes in the Balance Sheet June 30, 1999 to December 31, 1998

Accounts receivable balances increased by \$2.7 million in 1999. The acquisition of Calder Race Course increased accounts receivable by \$1.3 million. The remaining increase of \$1.4 million was primarily a result of the timing of payments received for Churchill Downs live meet.

Other assets increased \$5.2 million in 1999. The acquisition of Calder Race Course increased other assets \$1.8 million primarily due to investments held for the future Florida Stallion Stakes races. The remaining increase was primarily due to \$2.0 million of costs incurred for the expected acquisition of Hollywood Park.

Intangible assets increased \$53.9 million primarily due to the addition of goodwill of \$3.2 million recorded for the acquisition of Charlson Broadcast Technologies, LLC during the first quarter of 1999, and \$48.7 million recorded for the acquisition of Calder Race Course during the second quarter of 1999. In addition, costs related to the Company's new \$250 million revolving loan facility of \$2.7 million are included. These increases were partially offset by current year additions to accumulated amortization.

The net plant and equipment increase of \$50.4 million during 1999 included \$48.2 million for the acquisitions of Calder Race Course and Charlson Broadcast Technologies, LLC and the remaining increase was due to routine capital spending at our operating units offset by current year depreciation expense.

Accounts payable increased \$8.2 million at June 30, 1999 primarily due to increases in purses payable and other expenses related to simulcast wagering for Hoosier Park and Ellis Park and an increase in accounts payable was also due to our acquisition of Calder Race Course during the second quarter of 1999.

Accrued expenses increased \$8.8 million, primarily due to a \$7.1 million increase as a result of the Calder Race Course acquisition. The remaining increase was due to accrued acquisition costs related to Calder Race Course and the acquisition costs related to the expected third quarter of 1999 acquisition of Hollywood Park Racetrack.

Dividends payable decreased \$3.7 million at June 30, 1999 due to the payment of dividends of \$3.7 million (declared in 1998) in first quarter 1999.

Income taxes payable increased by \$7.4 million at June 30, 1999 representing the estimated income tax expense attributed to income generated in the six months of 1999 and the increase in effective tax rate.

Deferred revenue decreased \$5.1 million at June 30, 1999, primarily due to the significant amount of admission and seat revenue that was received prior to December 31, 1998 recognized as income in May 1999 for the Kentucky Derby and Kentucky Oaks race days. This decrease was offset by a \$2.0 million increase in deferred revenues acquired with the acquisition of Calder Race Course in the second quarter of 1999.

CHURCHILL DOWNS INCORPORATED
ITEM2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

The long-term debt increase of \$89.7 million was the result of additional borrowings on our bank line of credit during 1999, primarily used to fund the 1999 acquisitions of Calder Race Course and Charlson Broadcast Technologies, LLC.

Deferred income taxes increased by \$9.0 million primarily as a result of the recognition of deferred taxes with the Calder Race Course acquisition during the second quarter of 1999.

Significant Changes in the Balance Sheet June 30, 1999 to June 30, 1998

Other assets increased \$4.5 million in 1999. The acquisition of Calder Race Course increased other assets \$1.8 million primarily due to investments held for the future Florida Stallion Stakes races. The remaining increase was primarily due to \$2.0 million of costs incurred for the expected acquisition of Hollywood Park.

Intangible assets increased \$52.8 million primarily due to the addition of goodwill of \$3.2 million recorded for the acquisition of Charlson Broadcast Technologies, LLC during the first quarter of 1999, and \$48.7 million recorded for the acquisition of Calder Race Course during the second quarter of 1999. In addition, costs related to the Company's new \$250 million revolving loan facility of \$2.7 million are included. These increases were partially offset by additions to accumulated amortization.

Net plant and equipment increase of \$48.8 million included \$48.2 million for the acquisitions of Calder Race Course and Charlson Broadcast Technologies, LLC and the remaining increase was due to routine capital spending at our operating units offset by depreciation expense.

The accounts payable increase of \$3.3 million was primarily due to the acquisition of Calder Race Course which represents \$2.2 million of the increase. The remaining \$1.1 million was due to the timing of payments for horsemen-related and simulcast payables for Churchill Downs racetrack Spring Meet.

Accrued expenses increased \$7.6 million, primarily due to a \$7.1 million increase as a result of the Calder Race Course acquisition.

The long-term debt increase of \$94.5 million was due primarily to line of credit borrowings used to fund the acquisitions of Calder Race Course during the second quarter of 1999 and Charlson Broadcast Technologies, LLC during the first quarter of 1999.

Deferred income taxes increased by \$8.0 million as a result of the recognition of deferred taxes with the Calder Race Course acquisition during the second quarter of 1999.

CHURCHILL DOWNS INCORPORATED
ITEM2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

Liquidity and Capital Resources

The working capital deficiency was \$4.9 and \$7.5 million for the six months ended June 30, 1999 and 1998, respectively, which results from the seasonality of our businesses. Cash flows provided by operations were \$26.1 and \$15.7 million for the six months ended June 30, 1999 and 1998, respectively. Significant changes in operating cash flows are primarily a result of the current year acquisitions of Charlson Broadcast Technologies, LLC and Calder Race Course. Management believes cash flows from operations and available borrowings during 1999 will be sufficient to fund our cash requirements for the year, including capital improvements and the acquisition of Hollywood Park Race Track and Casino.

Cash flows used in investing activities were \$93.7 and \$19.4 million for the six months ended June 30, 1999 and 1998, respectively. Cash used for 1999 business acquisitions consisted of \$82.4 million net of cash acquired for the acquisition of Calder Race Course during the second quarter and \$2.9 million net of cash acquired for the acquisition of Charlson Broadcast Technologies, LLC during the first quarter. We also had prepaid acquisition costs of \$0.3 million for the expected third quarter acquisition of Hollywood Park Race Track and Casino. We used \$8.1 million for capital spending at our facilities including \$1.2 million for the construction of a stable area dormitory and \$0.6 million for the renovation of the racing offices at Churchill Downs racetrack facility. The additional increase in capital spending from prior year spending is primarily the result of the RCA, Charlson Broadcast LLC, and Calder Race Course acquisitions.

Cash flows provided by financing activities were \$83.1 and \$2.4 million for the six months ended June 30, 1999 and 1998, respectively. We borrowed \$119 million and repaid \$30 million on our line of credit during 1999 primarily to finance the purchase of Calder Race Course and Charlson Broadcast Technologies, LLC. We received a \$1.6 million contribution by a minority interest in our Charlson Broadcast Technologies, LLC subsidiary. In addition, we incurred \$2.7 million of costs for the origination of the \$250 million line of credit.

In April 1999, our total line of credit was increased to \$250 million under a new revolving loan facility, of which \$100 million was outstanding at June 30, 1999. This credit facility replaced a \$100 million line of credit obtained during the third quarter of 1998. The new facility is secured by substantially all of our assets. This credit facility is intended to meet working capital and other short-term requirements and to provide funding for acquisitions, including the pending purchase of Hollywood Park. The new revolving loan facility matures in 2004.

Impact of the Year 2000 Issue

The "Year 2000 Issue" is the result of computer programs that were written using two digits rather than four to define the applicable year in date-dependent systems. If our computer programs with date-sensitive functions are not Year 2000 compliant, they may be unable to distinguish the year 2000 from the year 1900. This could result in system failure or miscalculations leading to a disruption of business operations.

CHURCHILL DOWNS INCORPORATED
ITEM2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

Some of our mission critical operations are dependent upon computer systems and applications. These systems are either directly owned and controlled by us or are provided under contract by third party technology service providers. To address the Year 2000 issue, we have categorized the Year 2000 Issue into four principal areas.

Systems Owned By the Company

The first area is related to systems that we own. These systems include application software and dedicated hardware that run our core operations. In addition, there are numerous applications that provide administrative support and management reporting functions. We developed some of these applications internally and purchased other applications.

To address Year 2000 compliance across this broad category of systems, we have broken each system down into its most elemental pieces in order to study the hardware including any embedded chip technology/firmware, the operating systems and, finally, the applications themselves.

We have identified hardware, including any embedded chip technology/firmware that was not Year 2000 compliant and replaced it as part of the routine turnover of technology capital. The remaining hardware requiring replacement was upgraded during the first half of 1999. At the end of June 1999, all hardware and embedded chip technology/firmware that we own were believed to be Year 2000 compliant.

We have checked all operating systems supporting specific applications by advancing the dates to determine if the date change impacts operating system-level functionality. As new operating system upgrades are made available and installed, periodic testing will continue to assure operating system-level functionality is maintained. In addition, we have contacted the developers of the operating systems we use and have received assurances as to their compatibility with the Year 2000 transition.

Application software compliance with the Year 2000 has been certified through a combination of technical consultation with the software developers and testing. Applications developed with internal resources have been written with Year 2000 compliance in mind using development tools that are Year 2000 compliant. We have received technical reports from third parties on Year 2000 compliance for financial reporting, payroll, operations control and reporting and internal communications applications. We require Year 2000 compliance on any software upgrades.

Based on the schedule outlined above, we expect our owned systems to be Year 2000 compliant prior to the year 2000. We will test the system by advancing dates to include a majority of the Year 2000 critical dates by the fourth quarter of 1999. However, even though our planned modifications to internally owned hardware and software should adequately address Year 2000 issues, there can be no assurance that unforeseen difficulties will not arise.

CHURCHILL DOWNS INCORPORATED
ITEM2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS (Continued)

Technology Services Provided to the Company Under Contract By Third Parties

The second area is services provided to us by third parties. Many of these services are mission critical and could materially impact on us should the systems upon which the services are dependent be unable to function.

The totalisator services provided by United Tote Company and AmTote International, Inc. are the most critical to our operations. Totalisator services include the calculation of amounts wagered and owed to winning ticket holders. United Tote developed a plan to bring all systems provided to us into Year 2000 compliance during 1998. United Tote and the Company initiated this plan during the second quarter of 1998 by undertaking a comprehensive system hardware and software upgrade that is Year 2000 compliant. We successfully installed the systems in three phases with the last phase having been completed in October 1998. All on-track, intertrack wagering and hub operations are Year 2000 compliant. We will continue to work closely with United Tote to assure that future releases and upgrades are Year 2000 compliant by including this provision as a condition in contracts for future services. Based on our evaluation, we believe that AmTote, which is utilized by Calder Race Course, is on schedule to be Year 2000 compliant by the fourth quarter of 1999.

The video services provided by an outside vendor are also important to our operations. Video services include the capture, production and distribution of the television signal for distribution to customers located on our premises and to customers located at remote outlets throughout the nation. We are working closely with the vendor to ensure the software applications that provide the graphical enhancements and other distinguishing features to the televised signal for Churchill Downs racetrack and Hoosier Park are Year 2000 compliant. The graphical software was upgraded during the second quarter of 1999 to a Year 2000 compliant version of the application.

We purchase data and statistical information from Equibase for resale to the public. This information is an essential element of our product and is included in printed material made available to our customers to assist in their wagering decisions. Equibase has implemented a Year 2000 remediation plan which is expected to be completed by the third quarter of 1999.

A variety of other smaller and less critical technology service providers are involved with our product. We have received assurance letters from a majority of these suppliers and will continue to work to receive assurances from those remaining.

Because of the nature of our business and its dependence upon key technology services provided by third parties, we require that all new software and technology services are Year 2000 compliant. This requirement includes patches, upgrades and fixes to existing technology services.

In the event that any of our third party service providers do not successfully and timely achieve Year 2000 compliance, and we are unable to replace them with alternate service providers, it could result in a delay in providing our core live racing and simulcasting products to our customers and have a material adverse effect on our business, financial condition and results of operations.

Industry-wide Issues

Because we derive a significant portion of our revenues from customers at other racing organizations that are confronted with the same technological issues, including totalisator, video and statistical information services, we have been actively participating in an industry-wide assessment and remedial efforts to address the Year 2000 issue.

Feedback Control Systems

A variety of the newer control and regulating systems are date sensitive. Environmental control systems, elevator/escalator systems, fire control and security systems utilize date-sensitive software/embedded chip technology for correct operation. We have systems that perform each of these functions, and we are identifying if any of these systems employ technology that may not be Year 2000 compliant. We will work closely with manufacturers of these products to develop a remedial plan to assure Year 2000 compliance if any problems are identified.

Cost and Contingency Planning

To date, the total cost is estimated to be less than \$100,000 to remediate Year 2000 compliance issues. Our management believes that any future costs to remediate Year 2000 compliance issues will not be material to our financial position or results of operations.

We are currently evaluating our most reasonably likely worst-case Year 2000 scenario and are also developing contingency plans as part of our efforts to identify and correct Year 2000 issues affecting our owned systems as well as issues involving third party service providers. We intend to complete both the evaluation of a worst-case Year 2000 scenario and contingency planning in the third quarter of 1999.

Due to our recent acquisition of Calder Race Course, we will continue to assess the status of the Company's Year 2000 compliance in regards to the factors mentioned above and we expect to complete this evaluation in the third quarter.

Subsequent Events

On July 20, 1999, we issued 2,300,000 shares of common stock at a price of \$29 per share. The total proceeds before offering expenses were \$63.2 million, and were used for the repayment of bank borrowings.

CHURCHILL DOWNS INCORPORATED

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Our major market risk exposure is primarily due to possible fluctuations in interest rates as they relate to our variable rate debt. We do not enter into derivative financial investments for trading or speculation purposes. As a result, we believe that our market risk exposure is not material to our financial position, liquidity or results of operations.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Not Applicable

ITEM 2. Changes in Securities and Use of Proceeds

Not Applicable

ITEM 3. Defaults Upon Senior Securities

Not Applicable

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

The registrant's 1999 Annual Meeting of Shareholders was held on June 17, 1999. 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:

Class III Directors	Votes For	Votes Withheld
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Charles W. Bidwill, Jr.	6,228,039	78,237
Daniel P. Harrington	6,229,780	76,496
Thomas H. Meeker	6,229,635	76,641
Carl F. Pollard	6,230,389	75,887
Darrell R. Wells	6,230,549	75,727

A proposal (Proposal No. 2) to approve amending Churchill Downs' Articles of Incorporation to increase the number of authorized common shares from 20 million to 50 million was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 5,832,957 shares were voted in favor of the proposal; 416,557 were voted against; and 56,763 abstained.

A proposal (Proposal No. 3) to approve the minutes of the 1998 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: 6,241,967 shares were voted in favor of the proposal; 9,764 were voted against; and 54,546 abstained.

The total number of shares of common stock outstanding as of April 20, 1999, the record date of the Annual Meeting of Shareholders, was 7,525,041.

ITEM 5. Other Information

Not Applicable

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

A. Exhibits

See exhibit index on page 30.

B. Reports on Form 8-K

Churchill Downs Incorporated filed a Current Report on Form 8-K dated April 23, 1999, amended by Form 8-K/A dated June 18, 1999, reporting, under Item 2, "Acquisition or disposition of assets", the acquisition of Calder Race Course, Inc. and Tropical Park, Inc. pursuant to a Stock Purchase Agreement and Joint Escrow Instructions dated January 21, 1999, amended by a First Amendment to Stock Purchase Agreement dated April 19, 1999 and an Agreement and Plan of Merger and Amendment to Stock Purchase Agreement dated April 22, 1999.

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 13, 1999	\s\Thomas H. Meeker Thomas H. Meeker President and Chief Executive Officer (Director and Principal Executive Officer)
August 13, 1999	\s\Robert L. Decker Robert L. Decker Executive Vice President and Chief Financial Officer (Principal Financial Officer)
August 13, 1999	\s\Vicki L. Baumgardner Vicki L. Baumgardner Vice President, Finance and Treasurer (Principal Accounting Officer)

EXHIBIT INDE+X

Numbers	Description	By Reference To
(1)	Underwriting agreement for 2,000,000 Shares of Churchill Downs Incorporated Common Stock between Churchill Downs Incorporated and CIBC World Markets Corporation, Lehman Brothers, Inc., JC Bradford & Co., J.J.B. Hilliard, W.L. Lyons, Inc. on behalf of several underwriters	Exhibit 1.1 to Registration Statement on Form S-3/A dated July 15, 1999
(2) (a)	First Amendment to Stock Purchase Agreement dated as of April 19, 1999 by and between Churchill Downs Incorporated, Churchill Downs Management Company and KE Acquisition Corp.	Exhibit 2.2 to Report on Form 8-K dated April 23, 1999
(b)	Agreement and Plan of Merger and Amendment to Stock Purchase Agreement dated as of April 22, 1999 by and among Churchill Downs Incorporated, Churchill Downs Management Company, CR Acquisition Corp., TP Acquisition Corp., Calder Race Course, Inc., Tropical Park, Inc. and KE Acquisition Corp.	Exhibit 2.3 to Report on Form 8-K dated April 23, 1999
(c)	Asset Purchase Agreement dated May 5, 1999 between Hollywood Park, Inc., a Delaware Corporation, and Churchill Downs Incorporated	Exhibit 2.1 to Registration Statement on Form S-3 dated May 21, 1999
(3) (a)	Restated Bylaws of Churchill Downs Incorporated as amended	Page 28, Report on Form 10-Q for the fiscal quarter ended June 30, 1999
(10) (a)	\$250,000,000 Revolving Credit Facility Credit Agreement between Churchill Downs Incorporated, and the guarantors party hereto, and the Banks party hereto and PNC Bank, National Association, as Agent, and CIBC Oppenheimer Corp., as Syndication Agent, and Bank One, Kentucky, N.A., as Documentation Agent, dated as of April 23, 1999	Exhibit (10) (a) to Report on Form 10-Q for the fiscal quarter ended March 31, 1999
(b)	First Amendment to \$250,000,000 Revolving Credit Facility Credit Agreement dated April 30, 1999	Exhibit (10) (b) to Report on Form 10-Q for the fiscal quarter ended March 31, 1999
(c)	Second Amendment to \$250,000,000 Revolving Credit Facility Credit Agreement dated June 14,	Page 43, Report on Form 10-Q for the fiscal quarter ended June 30, 1999
(27)	Financial Data Schedule for the fiscal quarter ended June 30, 1999	Page 59, Report on Form 10-Q for the fiscal quarter ended June 30, 1999

ARTICLE I

OFFICE AND SEAL

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

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

ARTICLE II

STOCKHOLDERS MEETINGS AND RECORD DATES

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

SECTION 2. SPECIAL MEETINGS. Special meetings of the stockholders may be called by holders of not less than 66 2/3% of all shares entitled to vote at the meeting, or by a majority of the members of the Board of Directors.

SECTION 3. PLACE OF MEETING. The Board of Directors may designate any place within or without the State of Kentucky as the

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place of meeting for any annual meeting of stockholders, or any place either within or without the State of Kentucky as the place of meeting for any special meeting called by the Board of Directors.

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

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

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

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

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receive any dividend.

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

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

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

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

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

To be timely, a stockholder's notice to the Secretary

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

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

made in connection with the solicitations of proxies for the proposal (including, if applicable, with respect to the election of directors) pursuant to Section 14 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder if such stockholder were engaged in such solicitation, and (g) a representation that such stockholder intends to appear in person or by proxy at the meeting to bring such business before the meeting. Any notice concerning the nomination of a person for election as a director must be accompanied by a written consent of the proposed nominee to being named as a nominee and to serve as a director if elected.

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

ARTICLE III

DIRECTORS

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

SECTION 2. NUMBER AND TENURE. The Board of Directors shall consist of thirteen (13) members but the number may be increased or decreased by amendment of this Bylaw. The Directors shall be divided into three classes, consisting of four (4) Class I Directors, four (4) Class II Directors and five (5) Class III Directors. Each director shall hold office for a term of three (3)

years or until his successor shall have been elected and qualifies for the office, whichever period is longer. Except for any individual who is serving as Chairman of the Board of Directors at the time of nomination of directors, a person shall not be qualified for election as a Director unless he shall be less than seventy-two (72) years of age on the date of election. Each Director other than the Chairman of the Board of Directors shall become a Director Emeritus upon expiration of his current term following the date the Director is no longer qualified for election as a Director due to age. Directors Emeritus may attend all regular and special meetings of the Board of Directors and shall serve in an advisory capacity without a vote in Board actions.

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

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

SECTION 5. NOTICE. Notice of any special meeting of the Board of Directors shall be given by notice delivered personally, by mail, by telegraph or by telephone. If mailed, such notice shall be given at least five (5) days prior thereto and such mailed notice shall be deemed to have been delivered upon the earlier of receipt or five (5) days after it is deposited in the United States mail in a sealed envelope so addressed, with first class postage thereon prepaid. If notice is given by telegram, it shall be delivered at least twenty-four (24) hours prior to the special meeting and such telegram notice shall be deemed to have been delivered when the telegram is delivered to the telegraph company. Personal notice and notice by telephone shall be given at least twenty-four (24) hours prior to the special meeting and shall be deemed delivered upon receipt. Any Director may waive notice of any

meeting. The attendance of a Director at any meeting shall constitute a waiver of notice of such meeting, except when a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

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

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

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

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

SECTION 10. NOMINATION OF DIRECTORS. Only persons who are nominated in accordance with the procedures set forth in Section 9 of Article II of these Bylaws shall be eligible for election as Directors of the Corporation, except as may be

otherwise provided in the Restated Articles of Incorporation with respect to the right of holders of preferred stock of the Corporation to nominate and elect a specified number of Directors in certain circumstances.

ARTICLE IV

COMMITTEES OF THE BOARD

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

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

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

maintained and shall include recommendations to the Board of Directors regarding such changes in the manner of doing business or conducting the affairs of the Corporation as shall be deemed advisable.

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

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

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

Article III, Section 5, of these Bylaws.

ARTICLE V

OFFICERS

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

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

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

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

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

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

SECTION 7. TREASURER. The Treasurer, subject to the control of the Board of Directors, and together with the President, shall have general supervision of the finances of the Corporation. He shall have care and custody of and be responsible for all moneys due and payable to the Corporation from any source whatsoever and deposit such moneys in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of these Bylaws. The Treasurer shall have the care of, and be responsible for all securities, evidences of value and corporate instruments of the Corporation, and shall supervise the officers and other persons authorized to bank, handle and disburse its funds, informing himself as to whether all deposits are or have been duly made and all expenditures duly

authorized and evidenced by proper receipts and vouchers. He shall cause full and accurate books to be kept, showing the transactions of the Corporation, its accounts, assets, liabilities and financial condition, which shall at all times be open to the inspection of any Director, and he shall make due reports to the Board of Directors and the stockholders, and such statements and reports as are required of him by law. Subject to the Board of Directors, he shall have such other powers and duties as are incident to his office and not inconsistent with the Bylaws, or as may be assigned to him at any time by the Board.

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

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

ARTICLE VI

CONTRACTS, LOANS, CHECKS AND DEPOSITS

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

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

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

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

ARTICLE VII

CERTIFICATES FOR SHARES AND THEIR TRANSFER

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

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

purposes as regards the Corporation.

ARTICLE VIII

FISCAL YEAR

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

ARTICLE IX

WAIVER OF NOTICE

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

ARTICLE X

INDEMNIFICATION OF OFFICERS AND DIRECTORS

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

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

ARTICLE XI

FIDELITY BONDS

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

ARTICLE XII

AMENDMENT OF BYLAWS

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

to

\$250,000,000 REVOLVING CREDIT FACILITY

CREDIT AGREEMENT

by and among

CHURCHILL DOWNS INCORPORATED, as the Borrower,

and

THE GUARANTORS PARTY HERETO

and

THE BANKS PARTY HERETO

and

PNC BANK, NATIONAL ASSOCIATION, As Agent,

and

CIBC OPPENHEIMER CORP., As Syndication Agent.

and

BANK ONE, KENTUCKY, N.A., As Documentation Agent

Dated as of June 14, 1999

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THIS SECOND AMENDMENT TO CREDIT AGREEMENT (the "Second Amendment") dated as of June 14, 1999, by and among CHURCHILL DOWNS INCORPORATED, as the Borrower (the "Borrower"), the GUARANTORS party to the Credit Agreement (as hereinafter defined), the BANKS party to the Credit Agreement (as hereinafter defined) and PNC BANK, NATIONAL ASSOCIATION, as the Agent (the "Agent"), and CIBC OPPENHEIMER CORP., As Syndication Agent. and BANK ONE, KENTUCKY, N.A., As Documentation Agent

WHEREAS, reference is made to the Credit Agreement dated April 23, 1999 (the "Credit Agreement") described above;

WHEREAS, capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement;

WHEREAS, the Borrower has entered into that certain Asset Purchase Agreement (the "HPI Purchase Agreement"), dated as of May 5, 1999, between Hollywood Park, Inc. ("HPI") and the Borrower, pursuant to which the Borrower has agreed to purchase (the "HPI Purchase") on August 31, 1999 (subject to extension by mutual agreement) the Hollywood Park Racetrack and related assets (the "Hollywood Park Racetrack Business") and the building (the "Casino Building") in which the Hollywood Park Casino operates, as more fully described in the HPI Purchase Agreement;

WHEREAS, the HPI Purchase Agreement provides in part that the Borrower shall enter into a lease with HPI, in the form attached as Exhibit C to the HPI Purchase Agreement (the "HPI Lease"), pursuant to which HPI shall lease the Casino Building from the Borrower for a term of 10 years (subject to extension) at a base rent in the amount of \$250,000 per month (the "Casino Base Rent") during such initial term;

WHEREAS, the legislature of the State of California enacted that certain bill designated Senate Bill 27 ("Senate Bill 27") and the Governor of the State of California approved such Senate Bill 27 on August 21, 1998 and the changes made pursuant to such bill became effective on January 1, 1999; and

WHEREAS, Senate Bill 27, among other things, reduces the license fees imposed by the State of California on wagers received by live and off-track betting facilities in such State and makes other changes in the laws applicable to owners and operators of such facilities and the Borrower has determined that such changes (i) will increase the net revenue that the Hollywood Park Racetrack Business will earn in 1999 and subsequent years over the net revenues such business would have earned in the absence of such changes and (ii) would have increased the net revenues that the Hollywood Park Racetrack Business would have earned in 1998 if such changes had been in effect during 1998 (the "Legislative Benefits");

WHEREAS, Section 7.2.5 of the Credit Agreement provides in part that the Loan Parties may not acquire substantially all of the assets of another Person unless they satisfy certain conditions which include delivering an Acquisition Compliance Certificate evidencing that the Loan Parties shall be in compliance with the financial covenants contained in Sections 7.2.1, 7.2.4 and 7.2.17 through 7.2.21 after making such acquisition;

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WHEREAS, Section 7.2.17 (Maximum Total Leverage Ratio) and 7.2.18 (Maximum Senior Leverage Ratio) each provide in part as follows: "For purposes of this covenant, EBITDA shall include the rolling four quarter results of any entity being acquired by the Loan Parties if such entity will become a Loan Party hereunder."

WHEREAS, The Loan Parties request that the Banks:

(i) acknowledge that the Loan Parties may include the results of the Hollywood Park Racetrack Business for periods prior to their acquisition of such business in their rolling four quarter computations of EBITDA for purposes of Section 7.2.17 (Maximum Total Leverage Ratio) and Section 7.2.18 (Maximum Senior Leverage Ratio); and

(ii) agree that the Loan Parties may make pro-forma adjustments to such results to give effect to the Casino Base Rent and the Legislative Benefits as if such Casino Base Rent had been earned by the Loan Parties and such Legislative Benefits had been available to the Hollywood Park Racetrack Business throughout such rolling-four quarters periods.

NOW, THEREFORE, the parties hereto, in consideration of their mutual covenants and agreements hereinafter set forth and intending to be legally bound hereby, covenant and agree as follows:

1. Amendments to Credit Agreement.

A. New Definitions. (Section 1.1)

The following new definitions are hereby added to Section 1.1. Each such definition is inserted in alphabetical order in such Section:

"Hollywood Park EBITDA Adjustments shall mean the following adjustments to the Pre-Acquisition EBITDA of the Hollywood Park Racetrack Business for purposes of computing the ratios in Section 7.2.17 (Maximum Total Leverage Ratio) and 7.2.18 (Maximum Senior Leverage Ratio):

(i) Base Rent from the Hollywood Park Casino. There shall be added to the Pre-Acquisition EBITDA of the Hollywood Park Racetrack Business \$750,000 for each fiscal quarter prior to the Acquisition Date (such figure shall be prorated for the fiscal quarter in which the Acquisition Date falls based on the number of days in such quarter falling prior to the Acquisition Date) representing the Casino Base Rent that will be payable to the Loan Parties under the HPI Lease.

(ii) Legislative Benefits. Subject to the following sentence, the Loan Parties shall add to the Pre-Acquisition EBITDA of the Hollywood Park Racetrack Business an amount equal to \$1,621,000 for

fiscal quarter ending June 30, 1998, \$578,000 for fiscal quarter ending September 30, 1998, and \$887,000 for fiscal quarter ending December 31, 1998 (collectively, the "1998 EBITDA Add Back"), representing the additional revenues that would have been earned by HPI in such fiscal quarters of 1998 if Senate Bill 27 had been in effect during such fiscal quarters (the Borrower has set forth its computation of the 1998 EBITDA Add Back before the adjustment in the next sentence on Schedule 1.1(H)(1)) Notwithstanding the preceding sentence, the amount of the 1998 EBITDA Add Back included in any four-quarter computation shall not exceed the difference between the following:

(a) \$3,000,000,

LESS

(b) the 1999 EBITDA Benefit included in such four-quarter period.

An example of the operation of the 1998 EBITDA Add Back limitation set forth in the preceding sentence is contained on Schedule 1.1(H)(2).

Net Commission Rate Increase shall mean for each category of wagering activities conducted by the Hollywood Park Racetrack Business, the difference between the commission rate earned by such business in 1998 (before passage of Senate Bill 27) and the commission rate earned by such business in 1999 (after passage of Senate Bill 27). The Net Commission Rate Increase is set forth in column (C) of Schedule 1.1(H)(1).

1998 EBITDA Add Back shall have the meaning given to such term in the definition of Hollywood Park EBITDA Adjustments

1999 EBITDA Benefit shall be computed for each quarter in 1999 as follows: First the Loan Parties shall compute the following for each category of handle earned by the Hollywood Park Racetrack Business during such quarter (i) the product of such handle times (ii) the applicable Net Commission Rate Increase for such handle. Second, the Loan Parties shall add all of the products computed under the preceding sentence. It is acknowledged that the Loan Parties' computation of their 1999 EBITDA shall be subject to the Agent's review and approval.

Second Amendment shall mean the Second Amendment to this Credit Agreement

Second Amendment Effective Date shall mean the effective date of the Second Amendment.

The following terms are hereby added to Section 1.1 in alphabetical order and shall have the meaning assigned to such terms in the recitals to this Second Amendment:

Casino Base Rent
Casino Building
Hollywood Park Racetrack Business
HPI
HPI Lease
HPI Purchase
HPI Purchase Agreement
Legislative Benefits
Senate Bill 27

B. Maximum Total Leverage Ratio. (Section 7.2.17)

Section 7.2.17 is hereby amended and restated to read as follows:

"7.2.17 Maximum Total Leverage Ratio.

The Loan Parties shall not permit the ratio of Consolidated Total Indebtedness as of the last day of each fiscal quarter to Consolidated EBITDA (the "Leverage Ratio") for the four fiscal quarters ending on that date to exceed the applicable ratios set forth on Schedule 7.2 as of the dates set forth on such Schedule under column (1) (titled "Maximum Total Leverage Ratio").

For purposes of this covenant and the covenant in Section 7.2.18, EBITDA shall include on and after the date (the "Acquisition Date") of any Permitted Acquisition pursuant to and in compliance with Section 7.2.5 (Liquidations, Mergers, Consolidations, Acquisitions) the rolling four quarter results for periods prior to such Acquisition Date (the "Pre-Acquisition EBITDA") of

(i) the entity being acquired by the Loan Parties if such entity will become a Loan Party hereunder, and

(ii) the assets being acquired by a Loan Party if the Loan Parties are acquiring substantially all of the assets of a Person in such Permitted Acquisition, provided that when the Loan Parties acquire the Hollywood Park Racetrack Business pursuant to the HPI Purchase Agreement, the Loan Parties may add to the Pre-Acquisition EBITDA of such Hollywood Park Racetrack Business the Hollywood Park EBITDA Adjustments.

The Loan Parties acknowledge that for purposes of clause (ii) of the preceding sentence, they shall include only the Pre-Acquisition EBITDA of the Hollywood Park Racetrack Business (as adjusted by the Hollywood Park EBITDA Adjustments) in their EBITDA and they shall not include in such EBITDA any results of

the Hollywood Park Casino (except that they may include the Casino Base Rent which is one of the Hollywood Park EBITDA Adjustments).

C. Maximum Senior Leverage Ratio. (Section 7.2.18)

The last sentence of Section 7.2.18 (Maximum Senior Leverage Ratio) is hereby amended and restated to read as follows:

"For purposes of this covenant, EBITDA shall be adjusted in accordance with the last two sentences of Section 7.2.17 (Maximum Total Leverage Ratio)."

D. Schedules. New Schedules 1.1(H)(1) and 1.1(H)(2) are hereby added to the Credit Agreement in the form attached as Schedules 1.1(H)(1) and 1.1(H)(2) hereto.

2. Warranties

The Loan Parties, jointly and severally, represent and warrant as follows:

A. Recitals; Senate Bill.

The recitals hereto are true and correct in all material respects. Senate Bill 27 became effective on January 1, 1999.

B. Hollywood Park EBITDA Adjustments.

Schedule 1.1(H)(1) correctly computes the additional amount of Hollywood Park EBITDA Adjustments (without giving effect to the limitation set forth in the second sentence of subsection (ii) of the definition of Hollywood Park EBITDA Adjustments) that the Hollywood Park Race Track Business would have earned if the Senate Bill 27 had become effective on or before April 1, 1998 rather than January 1, 1999. Schedule 1.1(H)(1) also provides a reasonable estimate of the additional amount of income that the Hollywood Park Racetrack Business will incur in 1999 as a result of the changes made by Senate Bill 27.

To the knowledge of the Loan Parties, the audited financial statements for the Hollywood Park Racetrack Business for the four quarters ending December 31, 1998 were compiled from the books and records maintained by HPI's management, are correct and complete in all material respects and fairly represent the consolidated financial condition of the Hollywood Park Racetrack Business as of their dates and the results of operations for the fiscal periods then ended and have been prepared in accordance with GAAP consistently applied.

The representations and warranties in this paragraph (A) are incorporated in Section 5 of the Credit Agreement and any breach of such representations or warranties is a breach under Section 5 of the Credit Agreement.

C. Other Warranties Under the Credit Agreement

The other representations and warranties of Loan Parties contained in the Credit Agreement, after giving effect to the amendments thereto on the date hereof, are true and correct on and as of the date hereof with the same force and effect as though made by the Loan Parties on such date, except to the extent that any such representation or warranty expressly relates solely to a previous date. The Loan Parties are in compliance with all terms, conditions, provisions, and covenants contained in the Credit Agreement.

3. Conditions to Effectiveness.

This Second Amendment shall become effective provided that each of the following conditions is satisfied as of the date set forth in such condition:

A. Representations and Warranties.

Each of the Borrower's representations and warranties under Section 2 hereof shall be true and correct on the Second Amendment Effective date.

B. Opinion of Counsel.

On or before the Second Amendment Effective Date, there shall be delivered to the Agent for the benefit of each Bank written opinions of Wyatt, Tarrant & Combs and Rebecca C. Reed, counsel for the Loan Parties, in each case dated the Second Amendment Effective Date as to the warranties listed in Exhibit 3(B) hereto as such warranties relate to this Second Amendment and the documents executed in connection herewith and the consents required for this Second Amendment and such other documents.

C. Payment of Expenses.

On or before the Second Amendment Effective Date, the Borrower shall have paid or caused to be paid to the Agent for itself and for the account of the Banks to the extent not previously paid the costs and expenses for which the Agent and the Banks are entitled to be reimbursed.

D. Execution by Required Banks, Agent and Loan Parties.

On or before the Second Amendment Effective Date, this Second Amendment shall have been executed by the Required Banks, the Agent and the Loan Parties.

E. Acknowledgments Regarding Closing Conditions.

At least five (5) Business Days before the closing (the "HPI Closing") of the HPI Purchase Agreement and the acquisition by the Loan Parties of the Hollywood Park Racetrack Business and the Casino Building, the Loan Parties shall acknowledge and agree that they shall execute and deliver the following to the Agent for the benefit of the Banks:

(a) Acquisition Compliance Certificate.

An Acquisition Compliance Certificate in accordance with Section 7.2.5 of the Credit Agreement which shall be computed using rolling four quarters tests through and including the most recent quarter for which the applicable financial statements are available, provided that if the HPI Closing occurs (i) on or after August 15, 1999 but within the third quarter of 1999 such Certificate shall be computed using rolling four quarters test through and including June 30, 1999, and (ii) in any quarter ending after September 30, 1999 but more than 45 days after the commencement of such quarter, such Compliance Certificate shall be computed using rolling four quarters test through and including the last day of the immediately preceding fiscal quarter.

(b) Financial Statement Deliveries.

The (1) audited financial statements Hollywood Park Racetrack Business for the fiscal year ended December 31, 1998, and (2) unaudited financial statements of the Borrower through and including the date on which the rolling four quarters test is to be measured as provided in Section 3(D)(a) of this Second Amendment.

(c) Assignment of Lease; Subordination and Non-Disturbance Agreement, Consent to Assignment.

An Assignment of Leases and Rents relating to the HPI Lease in favor of the Agent for the benefit of the Banks and a Subordination and Non-Disturbance Agreement relating to the HPI Lease signed by the parties thereto, in each case in a form reasonably acceptable to the Agent.

(d) Opinion of Counsel.

A written opinion of Wyatt, Tarrant & Combs and Gibson Dunn & Crutcher LLP, and any applicable local counsel for the Loan Parties, dated the date of the HPI Closing addressing the representations and warranties covered in the opinions delivered on the Closing Date of the Credit Agreement as such representations and warranties relate to the documents to be delivered in connection with the HPI Closing.

(e) Other Documents.

Each of the other documents required under the Credit Agreement in connection with the HPI Purchase, including Guarantor Joinders by any new subsidiaries which shall become Loan Parties, Mortgages on the real estate acquired by the Loan Parties and related title insurance policies, surveys and environmental reports, the consent of the California Horse Racing Board for the grant of Liens in the assets acquired in the HPI Purchase, and pledges of stock of the acquisition entities, to the Agent.

F. HPI Purchase.

The Loan Parties shall consummate the HPI Purchase pursuant to the Purchase Agreement on or before December 31, 1999.

4. References to Credit Agreement, Loan Documents.

Any reference to the Credit Agreement or other Loan Documents in any document, instrument, or agreement shall hereafter mean and include the Credit Agreement or such Loan Document, including such schedules and exhibits, as amended hereby. In the event of irreconcilable inconsistency between the terms or provisions hereof and the terms or provisions of the Credit Agreement or such Loan Document, including such schedules and exhibits, the terms and provisions hereof shall control.

5. Force and Effect.

The Borrower reconfirms, restates, and ratifies the Credit Agreement and all other documents executed in connection therewith except to the extent any such documents are expressly modified by this Second Amendment and Borrower confirms that all such documents have remained in full force and effect since the date of their execution.

6. Governing Law.

This Second Amendment shall be deemed to be a contract under the laws of the Commonwealth of Kentucky and for all purposes shall be governed by and construed and enforced in accordance with the internal laws of the Commonwealth of Kentucky without regard to its conflict of laws principles.

7. Counterparts; Effective Date.

This Second Amendment may be signed in any number of counterparts each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Second Amendment shall become effective when it has been executed by the Agent, the Loan Parties and the Required Banks and each of the other conditions set forth in Section 3 of this Second Amendment has been satisfied.

[SIGNATURE PAGES TO FOLLOW]

[SIGNATURE PAGE 1 OF 4 TO SECOND AMENDMENT]

IN WITNESS WHEREOF, the parties hereto, by their officers thereunto duly authorized, have executed this Second Amendment as of the day and year above written.

BORROWER:

CHURCHILL DOWNS INCORPORATED

By:/s/ Robert L. Decker
Title: Executive Vice President
Chief Financial Officer

GUARANTORS:

CHURCHILL DOWNS MANAGEMENT COMPANY

By:/s/ Robert L. Decker
Title: Vice President/Treasurer

CHURCHILL DOWNS INVESTMENT COMPANY

By: /s/ Robert L. Decker
Title: President

RACING CORPORATION OF AMERICA

By: /s/ Robert L. Decker
Title: Treasurer

ELLIS PARK RACE COURSE, INC.

By: /s/ Robert L. Decker
Title: Treasurer

ANDERSON PARK, INC.

By: /s/ Robert L. Decker
Title: Treasurer

CALDER RACE COURSE, INC.

By: /s/ Robert L. Decker
Title: Vice President/Treasurer

TROPICAL PARK, INC.

By: /s/ Robert L. Decker
Title: Vice President/Treasurer

BANKS AND AGENT

PNC BANK, NATIONAL ASSOCIATION,
individually and as Agent

By:/s/ Susan C. Snyder
Title:Vice President

BANK ONE, KENTUCKY, NA

By:/s/Michael McFerran
Title: Vice President

CIBC INC.

By:/s/Leo Fernandex
Title: Director

COMERICA BANK

By:/s/ Kathleen Kasperek
Title: Account Officer

FIFTH THIRD BANK

By: /s/Aubrey Hayden
Title: Assistant Vice President

NATIONAL CITY BANK OF KENTUCKY

By: /s/ Laura Cromer
Title: Vice President

FIRSTSTAR BANK, N.A.

By: /s/ Toby B. Rau
Title:Assistant Vice President

BANK OF LOUISVILLE

By: /s/John Barr, Sr.
Title: Senior Vice President

CIVITAS BANK

By: /s/Dwight Hamilton
Title: Vice President

WELLS FARGO BANK

By: /s/Virginia Christenson
Title: Relationship Manager

Schedule 1.1(H)(1)--Hollywood Park 1998 EBITDA Add Back
(before the \$3,000,000 limitation))

CHURCHILL DOWNS
Calculation of Hollywood Park Legislative Benefits
using 1998 Actual Handle

	(A)	(B)	(C) ((A) Less (B))	(D)	(E) ((C) times (D))	(F)	(G) ((C) times (F))	(H)	(I) (C) times (D)	(J)
	1998 Net Commissions	1999 Net Commissions	Net Commission Inc (dec)-1999	Handle 6-30-98 Quarter	Adjustment 6-30-98 Quarter	Handle 9-30-98 Quarter	Adjustment 9-30-98 Quarter	Handle 12-31-98 Quarter	Adjustment 12-31-98 Quarter	Total Adjustment
License Fee (LF) relief- Live-On track (1)	6.66%	8.28%	1.62%	\$78,386	\$1,270	\$25,987	\$421	\$36,412	\$590	\$2,281
LF - Intrastate - Live Races (2)	4.54%	5.16%	0.62%	\$102,838	\$638	\$32,875	\$204	\$54,374	\$337	\$1,179
LF-No. CA - On-track (3)	5.21%	6.44%	1.23%	\$21,166	\$260	\$5,347	\$66	\$12,021	\$148	\$474
LF-No. CA - Intrastate (4)	4.38%	5.18%	0.80%	\$41,202	\$330	\$11,616	\$93	\$25,856	\$207	\$629
LF - Out of State Simulcasts (5)	5.07%	4.33%	-0.74%	\$41,209	(\$306)	\$8,629	(\$64)	\$13,555	(\$101)	(\$471)
LF - No. CA - Producer Fee (6)	1.25%	0.00%	-1.25%	\$46,590	(\$582)	\$14,484	(\$181)	\$25,320	(\$317)	(\$1,080)
LF - Simulcast Meets - Producer Fee (7)	1.94%	2.00%	0.06%	\$18,509	\$12	\$62,282	\$39	\$35,259	\$22	\$73
Net License Fee Relief (total above)					\$1,621 =====		\$578 =====		\$887 =====	\$3,086 =====

Footnotes:

1. This category represents patrons at Hollywood Park betting on Hollywood Park live races.
2. This category represents patrons at Southern California OTBs betting on Hollywood Park live races
3. This category represents patrons at Hollywood Park betting on Northern California races.
4. This category represents patrons at Southern California OTBs betting on Northern California races.
5. This category represents patrons at Hollywood Park and Southern California OTBs betting on races conducted at out of state locations and simulcast at Hollywood Park. The 1998 actual handle for each of the Spring/Summer and Autumn meets consists of Woodbine handle and Out of State handle, both On Track and Within California. The 1999 budgeted handle consists of Out of State handle, both On Track and Within California (Woodbine races are not shown at Hollywood Park in 1999).
6. This category represents wagers placed by North California patrons on Hollywood Park live races. This fee has been eliminated in 1999.
7. This category represents the Hollywood Park patrons betting on Southern California, Northern California and out of state races during the periods when Hollywood Park is not racing live.

Schedule 1.1(H) (2)--Example of 1998 EBITDA Add Back Limitation

Facts:

Assume the following facts (1999 numbers below are hypothetical. They do not reflect actual results):

1999 EBITDA Benefit is as follows:

1st quarter (ending 3-31-99): \$1,000,000

2nd quarter (ending 6-30-99) \$1,000,000

The Loan Parties are computing their EBITDA for the 4 quarters ending 6-30-99 for purposes of determining their Maximum Total Leverage Ratio and Maximum Senior Leverage Ratio on their 6-30-1999 compliance certificate.

Computation:

The definition of "Hollywood Park EBITDA Adjustments" provides that the Hollywood Park EBITDA Adjustments would be \$578,000 for fiscal quarter ending September 30, 1998, and \$887,000 for fiscal quarter ending December 31, 1998, subject to the limitation described in the second sentence of that definition. Under that second sentence the limitation is \$1,000,000, computed as follows:

\$3,000,000

less

\$2,000,000 (1999 EBITDA Benefit)

Equals limitation \$1,000,000

The 1998 EBITDA Add Back (after giving effect to the limitation) is \$1,000,000, computed as follows:

\$1,465,000 (\$578,000 plus \$887,000) limited to \$1,000,000

EXHIBIT 3(B)

OPINION OF COUNSEL

The opinion of Rebecca Reed shall confirm that the recitals hereto are true and correct in all material respects and that the other matters contained in the warranty in Section 2(B) hereto are true and the opinion of Wyatt, Tarrant & Combs shall confirm that the following representations and warranties in the Credit Agreement are true and correct as such warranties relate to this Second Amendment and the Credit Agreement as amended by this Second Amendment.

Credit Agreement	Warranty
Section	
5.1.1	Organization and Qualification
5.1.2	Capitalization and Ownership
5.1.4	Power and Authority
5.1.5	Validity and Binding Effect
5.1.6	No Conflict
5.1.12	Consents and Approvals

5
1,000
U.S. Dollars

6-MOS
DEC-31-1999
JAN-01-1999
JUN-30-1999

1		21,927
0		
14,653		
517		
133		
38,250		222,514
	89,053	
	242,927	
43,176		
	0	
	8,927	
0		
	0	
	67,017	
242,927		
		101,803
	101,803	
		74,820
	81,709	
	791	
	0	
	2,209	
	18,372	
	7,716	
10,656		
	0	
	0	
		0
		10,656
		1.42
		1.39