

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2000

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 November 14, 2000 was 13,015,449 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)  
(in thousands)

ASSETS	September 30, 2000 ----	December 31, 1999 ----	September 30, 1999 ----
Current assets:			
Cash and cash equivalents	\$ 11,359	\$ 29,060	\$ 27,936
Restricted cash	9,270	-	-
Accounts receivable	35,096	24,279	14,812
Other current assets	4,627	2,751	3,110
	-----	-----	-----
Total current assets	60,352	56,090	45,858
Other assets	7,390	4,740	6,167
Plant and equipment, net	339,593	274,882	275,631
Intangible assets, net	64,346	62,334	61,899
	-----	-----	-----
	\$471,681	\$398,046	\$389,555
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 34,572	\$ 14,794	\$ 19,616
Accrued expenses	38,025	23,821	18,102
Dividends payable	-	4,927	-
Income taxes payable	1,774	336	1,529
Deferred revenue	5,386	10,860	3,094
Long-term debt, current portion	2,277	552	465
	-----	-----	-----
Total current liabilities	82,034	55,290	42,806
Long-term debt	157,183	180,898	186,104
Other liabilities	10,299	8,263	4,836
Deferred income taxes	15,565	15,474	15,938
Commitments and contingencies	-	-	-
Shareholders' equity:			
Preferred stock, no par value; 250 shares authorized; no shares issued	-	-	-
Common stock, no par value; 50,000 shares authorized; issued: 13,015 shares September 30, 2000 and 9,854 shares December 31, 1999 and September 30, 1999	123,149	71,634	71,634
Retained earnings	83,545	66,667	68,446
Deferred compensation costs	(29)	(115)	(144)
Note receivable for common stock	(65)	(65)	(65)
	-----	-----	-----
	206,600	138,121	139,871
	-----	-----	-----
	\$471,681	\$398,046	\$389,555
	=====	=====	=====

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

CHURCHILL DOWNS INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS for  
the nine and three months ended September 30, 2000 and 1999  
(Unaudited)  
(In thousands, except per share data)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2000 ----	1999 ----	2000 ----	1999 ----
Net revenues	\$261,120	\$164,879	\$103,536	\$63,076
Operating expenses	200,954	129,482	80,282	54,662
	-----	-----	-----	-----
Gross profit	60,166	35,397	23,254	8,414
Selling, general and administrative expenses	20,394	11,668	7,430	4,779
	-----	-----	-----	-----
Operating income	39,772	23,729	15,824	3,635
	-----	-----	-----	-----
Other income (expense):				
Interest income	774	566	269	204
Interest expense	(11,353)	(4,162)	(3,683)	(1,953)
Miscellaneous, net	(513)	293	(97)	169
	-----	-----	-----	-----
	(11,092)	(3,303)	(3,511)	(1,580)
	-----	-----	-----	-----
Earnings before income tax provision	28,680	20,426	12,313	2,055
	-----	-----	-----	-----
Federal and state income tax provision	(11,802)	(8,579)	(5,010)	(863)
	-----	-----	-----	-----
Net earnings	\$ 16,878	\$ 11,847	\$ 7,303	\$ 1,192
	=====	=====	=====	=====
Earnings per common share data:				
Basic	\$ 1.67	\$ 1.45	\$ 0.69	\$ 0.13
Diluted	\$ 1.66	\$ 1.43	\$ 0.68	\$ 0.12
Weighted average shares outstanding:				
Basic	10,121	8,175	10,649	9,455
Diluted	10,176	8,297	10,707	9,552

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

CHURCHILL DOWNS INCORPORATED  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
for the nine months ended September 30,  
(Unaudited)  
(In thousands)

	2000	1999
	----	----
Cash flows from operating activities:		
Net earnings	\$16,878	\$ 11,847
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	12,655	7,724
Deferred compensation	351	213
Deferred income taxes	283	(145)
Increase (decrease) in cash resulting from changes in operating assets and liabilities:		
Restricted cash	(9,270)	-
Accounts receivable	2,044	(2,181)
Other current assets	(1,899)	(1,479)
Accounts payable	3,459	12,943
Accrued expenses	623	5,432
Income taxes payable	1,438	1,271
Deferred revenue	(5,891)	(5,319)
Other assets and liabilities	127	990
	-----	-----
Net cash provided by operating activities	20,798	31,296
	-----	-----
Cash flows from investing activities:		
Additions to plant and equipment, net	(16,776)	(10,340)
Sale of Training Facility Assets	4,969	-
Acquisition of business, net of cash acquired of \$7,137 in 1999	-	(227,857)
	-----	-----
Net cash used in investing activities	(11,807)	(238,197)
	-----	-----
Cash flows from financing activities:		
Increase (decrease) in long-term debt, net	2,432	(1,176)
Borrowings on bank line of credit	66,679	267,000
Repayments of bank line of credit	(91,101)	(95,000)
Payment of loan origination costs	-	(2,863)
Payment of dividends	(4,927)	(3,762)
Capital contribution by minority interest in subsidiary	-	1,551
Common stock issued	225	62,707
	-----	-----
Net cash (used in) provided by financing activities	(26,692)	228,457
	-----	-----
Net (decrease) increase in cash and cash equivalents	(17,701)	21,556
Cash and cash equivalents, beginning of period	29,060	6,380
	-----	-----
Cash and cash equivalents, end of period	\$11,359	\$ 27,936
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$10,929	\$ 3,032
Income taxes	\$10,117	\$ 7,996
Schedule of non-cash activities:		
Accrued acquisition costs related to Hollywood Park	-	\$ 1,705
Accrued merger costs related to Arlington Park	\$ 2,095	-
Issuance of common stock related to the merger of Arlington Park	\$51,291	-

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

CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for  
the nine months ended September 30, 2000 and 1999 (unaudited)  
(\$ in thousands, except per share data)

1. Basis of Presentation

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States or those normally made in Churchill Downs Incorporated's (the "Company") annual report on Form 10-K. The year end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. Accordingly, the reader of this Form 10-Q may wish to refer to the Company's Form 10-K for the period ended December 31, 1999 for further information. The accompanying condensed consolidated financial statements have been prepared in accordance with the registrant's customary accounting practices and have not been audited. Certain prior period financial statement amounts have been reclassified to conform to the current period presentation. In the opinion of management, all adjustments necessary for a fair presentation of this information have been made and all such adjustments are of a normal recurring nature.

Because of the seasonal nature of the Company's business and recent acquisition activity, 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 and third quarters of each year during which all our operations are open for some or all of this period and the Kentucky Derby and Kentucky Oaks are run.

2. Restricted Cash

Restricted cash represents refundable deposits and amounts due to horsemen for purses, stakes and awards.

3. Long-Term Debt

The Company has a \$250 million line of credit under a revolving loan facility through a syndicate of banks to meet working capital and other short-term requirements and to provide funding for acquisitions. The interest rate on the borrowing is based upon LIBOR plus 75 to 250 additional basis points, which is determined by certain Company financial ratios. There was \$154.6 million outstanding on the line of credit at September 30, 2000, compared to \$178.0 million outstanding at December 31, 1999, and \$183.0 million outstanding at September 30, 1999. The line of credit is secured by substantially all of the assets of the Company and its wholly owned subsidiaries, and matures in 2004.

CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for  
the nine months ended September 30, 2000 and 1999 (unaudited)  
(\$ in thousands, except per share data)

3. Long-Term Debt (cont'd)

The Company has entered into interest rate swap contracts with major financial institutions, which have termination dates through March 2003. Under terms of these two separate contracts, we receive a LIBOR based variable interest rate on notional amounts of \$35.0 million each and pay a fixed interest rate of 7.015% and 7.30%, which mature in March 2003 and May 2002, respectively. The Company also entered into an interest rate swap in November 2000 in which we pay a fixed interest rate of 6.40% on a notional amount of \$30.0 million, which matures in November 2001. The variable interest rate received on the contracts is determined based on LIBOR on the last day of each month, which is consistent with the variable rate determination on the underlying debt.

4. Acquisitions and Other Transactions

On September 8, 2000, three of the Company's wholly owned subsidiaries merged with Arlington International Racecourse, Inc., Arlington Management Services, Inc. and Turf Club of Illinois, Inc. (collectively referred to as "Arlington Park"). The Company issued 3.15 million shares of its common stock to Duchossois Industries, Inc. ("DII") and could issue up to an additional 1.25 million shares of common stock dependent upon the opening of the riverboat casino at Rosemont, Illinois, and the amount of subsidies received by Arlington as a result thereof. For this purpose, the purchase price is based upon the number of shares issued to DII multiplied by an average trading price of the Company's shares for a period immediately before and after the announcement of the mergers on June 23, 2000, discounted to reflect restrictions on the voting and transfer of such shares imposed by the Stockholder's Agreement, plus merger-related costs. The acquisition was accounted for by the Company under the purchase method of accounting and, accordingly, the financial position and results of operations of Arlington Park have been included in the Company's consolidated financial statements since the date of acquisition. The assets and liabilities of Arlington Park were recorded at their estimated fair values on the acquisition date based on a preliminary appraisal. The allocation of the purchase price may require adjustment in the Company's future financial statements based on a final determination of the fair value of assets acquired in the acquisition.

On September 10, 1999, the Company acquired the assets of the Hollywood Park racetrack and the Hollywood Park Casino in Inglewood, California, including approximately 240 acres of land upon which the racetrack and casino are located, for a purchase price of \$140.0 million plus approximately \$2.5 million in transaction costs. The Company leases the Hollywood Park Casino facility to the seller under a 10-year lease with one 10-year renewal option. The lease provides for annual rent of \$3.0 million, subject to adjustment during the renewal period. The entire purchase price of \$142.5 million was allocated to the acquired assets and liabilities based on their fair values on the acquisition date. The acquisition was accounted for by the Company as an asset purchase and, accordingly, the financial position and results of operations of Hollywood Park racetrack have been included in the Company's consolidated financial statements since the date of acquisition.

On July 20, 1999, the Company issued 2.3 million shares of the Company's common stock at a price of \$29 per share. The total proceeds net of offering expenses were \$62.1 million and were used for the repayment of bank borrowings.

CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for  
the nine months ended September 30, 2000 and 1999 (unaudited)  
(\$ in thousands, except per share data)

4. Acquisitions and Other Transactions (cont'd)

On April 23, 1999, the Company acquired all of the outstanding stock of Calder Race Course, Inc. and Tropical Park, Inc. from KE Acquisition Corp. 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. The purchase price, including additional costs, 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 \$49.4 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 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.

Following are the unaudited pro forma results of operations as if the September 8, 2000 merger with Arlington Park, the September 10, 1999 acquisition of Hollywood Park racetrack, the July 20, 1999 stock issuance and the April 23, 1999 acquisition of Calder Race Course all had occurred on January 1, 1999:

	Nine Months Ended September 30, 2000 -----	Nine Months Ended September 30, 1999 -----
Net revenues	\$324,181	\$258,133
Net earnings	\$16,251	\$10,995
Earnings per common share:		
Basic	\$1.22	\$0.85
Diluted	\$1.22	\$0.84
Weighted average shares:		
Basic	13,271	12,977
Diluted	13,326	13,098

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, 1999, nor is it necessarily indicative of future operating results.



CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for  
the nine months ended September 30, 2000 and 1999 (unaudited)  
(\$ in thousands, except per share data)

5. Earnings Per Share

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

	Nine months ended September 30,		Three months ended September 30,	
	2000	1999	2000	1999
	-----	-----	-----	-----
Net earnings (numerator) amounts used for basic and diluted per share computations:	\$16,878	\$11,847	\$7,303	\$1,192
	-----	-----	-----	-----
Weighted average shares (denominator) of common stock outstanding per share:				
Basic	10,121	8,175	10,649	9,455
Plus dilutive effect of stock options	55	122	58	97
	-----	-----	-----	-----
Diluted	10,176	8,297	10,707	9,552
Earnings per common share:				
Basic	\$ 1.67	\$ 1.45	\$ 0.69	\$ 0.13
Diluted	\$ 1.66	\$ 1.43	\$ 0.68	\$ 0.12

Options to purchase approximately 74 and 69 shares for the periods ending September 30, 2000 and 1999, respectively, were not included in the computation of earnings per common share- assuming dilution because the options' exercise prices were greater than the average market price of the common shares.

CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for  
the nine months ended September 30, 2000 and 1999 (unaudited)  
(\$ in thousands, except per share data)

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 seven segments: (1) Churchill Downs racetrack and the Louisville Sports Spectrum simulcast facility, (2) Hollywood Park racetrack and its on-site simulcast facility, (3) Calder Race Course, (4) Arlington Park and its off-track betting facilities ("OTBs"), (5) Ellis Park racetrack and its on-site simulcast facility, (6) Hoosier Park racetrack and its on-site simulcast facility and the other three Indiana OTBs, and (7) other investments, including Carlson Broadcast Technologies LLC ("CBT") and the Company's other various equity interests, which are not material. Eliminations include the elimination of management fees and other intersegment transactions. As a result of a reorganization for internal reporting during 2000, the Company's segment disclosures are presented on a new basis to correspond with internal reporting for corporate revenues and expenses which, for the nine and three months ended September 30, 1999 and 2000, are now reported separate of Churchill Downs racetrack revenues and expenses.

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

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" in the Company's annual report to shareholders for the year ended December 31, 1999. Earnings before interest, taxes, depreciation and amortization ("EBITDA") should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with accounting principles generally accepted in the United States), as a measure of our operating results or cash flows (as determined in accordance with accounting principles generally accepted in the United States) or as a measure of our liquidity.

CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for  
the nine months ended September 30, 2000 and 1999 (unaudited)  
(\$ in thousands, except per share data)

6. Segment Information (cont'd)

The table below presents information about reported segments for the nine months and three months ended September 30, 2000 and 1999:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2000 ----	1999 ----	2000 ----	1999 ----
<b>Net revenues:</b>				
Churchill Downs	\$ 73,639	\$ 66,653	\$ 8,960	\$ 5,520
Hollywood Park	75,003	1,117	24,124	1,117
Calder Race Course	42,556	39,053	28,888	27,352
Arlington Park	9,171	-	9,171	-
Hoosier Park	38,090	37,514	13,872	13,256
Ellis Park (a)	14,947	18,491	12,265	15,528
Other investments	11,524	4,378	8,011	1,667
	-----	-----	-----	-----
	264,930	167,206	105,291	64,440
Corporate revenues (b)	651	-	46	-
Eliminations	(4,461)	(2,327)	(1,801)	(1,364)
	-----	-----	-----	-----
	\$261,120	\$164,879	\$103,536	\$63,076
	=====	=====	=====	=====
<b>EBITDA:</b>				
Churchill Downs	\$ 21,502	\$ 18,001	\$ (2,361)	\$ (4,013)
Hollywood Park	13,380	(542)	3,909	(542)
Calder Race Course	7,001	8,865	7,746	6,977
Arlington Park	2,093	-	2,093	-
Hoosier Park	4,939	5,131	1,497	1,744
Ellis Park (a)	1,534	2,834	2,581	3,637
Other investments	7,137	1,115	6,437	454
	-----	-----	-----	-----
	57,586	35,404	21,902	8,257
Corporate expenses (b)	(6,129)	(3,949)	(1,940)	(1,404)
	-----	-----	-----	-----
	\$ 51,457	\$ 31,455	\$ 19,962	\$ 6,853
	=====	=====	=====	=====
<b>Operating income (loss):</b>				
Churchill Downs	\$ 18,721	\$ 15,328	\$ (3,282)	\$ (4,883)
Hollywood Park	10,082	(795)	2,767	(795)
Calder Race Course	4,307	7,364	6,834	6,062
Arlington Park	1,960	-	1,960	-
Hoosier Park	3,942	4,183	1,164	1,417
Ellis Park	442	1,842	2,211	3,292
Other investments	6,146	(244)	6,169	(54)
	-----	-----	-----	-----
	45,600	27,678	17,823	5,039
Corporate expenses (b)	(5,828)	(3,949)	(1,999)	(1,404)
	-----	-----	-----	-----
	\$ 39,772	\$ 23,729	\$ 15,824	\$ 3,635
	=====	=====	=====	=====

(a) The decrease from 1999 to 2000 is primarily the result of a shift of one week of race dates to Churchill Downs.

(b) As a result of a reorganization for internal reporting during 2000, the Company's segment disclosures are presented on a new basis to correspond with internal reporting for corporate revenues and expenses. Corporate revenues and expenses for the nine and three months ended September 30, 1999 and 2000 are reported separately.

CHURCHILL DOWNS INCORPORATED  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS for  
the nine months ended September 30, 2000 and 1999 (unaudited)  
(\$ in thousands, except per share data)

6. Segment Information (cont'd)

	As of September 30, 2000	As of December 31, 1999	As of September 30, 1999
	-----	-----	-----
Total assets:			
Churchill Downs	\$ 408,990	\$345,909	\$329,293
Hollywood Park	165,232	153,126	144,137
Calder Race Course	114,857	114,396	111,421
Arlington Park	85,080	-	-
Hoosier Park	37,231	32,559	35,333
Ellis Park	30,606	25,015	26,742
Other investments	359,384	312,272	171,116
	-----	-----	-----
	1,201,380	983,277	818,042
Eliminations	(729,699)	(585,231)	(428,487)
	-----	-----	-----
	\$ 471,681	\$398,046	\$389,555
	=====	=====	=====

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

(in thousands)	Nine Months ended		Three Months ended	
	September 30, 2000	1999	September 30, 2000	1999
	----	----	----	----
Total EBITDA	\$51,457	\$31,455	\$19,962	\$6,853
Depreciation and amortization	(12,198)	(7,433)	(4,235)	(3,049)
Interest income (expense), net	(10,579)	(3,596)	(3,414)	(1,749)
	-----	-----	-----	-----
Earnings before provision for income taxes	\$28,680	\$20,426	\$12,313	\$2,055
	=====	=====	=====	=====

7. Pending Transactions

The Company previously entered into a definitive agreement with Centaur, Inc. which was subsequently assigned to Centaur Racing, LLC ("Centaur"), to sell a 26% interest in Hoosier Park, LP ("HPLP") for a purchase price of \$8.5 million. HPLP is an Indiana limited partnership that owns Hoosier Park racetrack and related OTBs. The Company was to retain a 51% interest in HPLP and continue to manage its day-to-day operations. On September 12, 2000, the Company announced that approval for the sale had been denied as a result of action taken by the Indiana Horse Racing Commission ("IHRC") against Centaur, and as a result the ownership structure has not changed. Centaur's performance under the definitive agreement was guaranteed by an irrevocable Letter of Credit in the amount of \$2.5 million, which management expects to be available to us at the end of Centaur's administrative appeals process, during the fourth quarter of 2000.

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 contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. 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 financial performance of Arlington Park; litigation surrounding the Rosemont, Illinois, riverboat casino; market reaction to our merger agreement with Arlington Park; changes in Illinois law that impact revenues of the racing operations in Illinois; the impact of gaming competition (including lotteries and riverboat, cruise ship and land-based casinos) and other sports and entertainment options in those markets in which we operate; a substantial change in law or regulations affecting our pari-mutuel activities; a substantial change in allocation of live racing days; a decrease in riverboat admissions subsidy revenue from our Indiana operations; the impact of an additional racetrack near our Indiana operations; our continued ability to effectively compete for the country's top horses and trainers necessary to field high-quality horse racing; our continued ability to grow our share of the interstate simulcast market; the impact of interest rate fluctuations; our ability to execute our acquisition strategy and to complete or successfully operate planned expansion projects; 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; 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 racing and simulcast signals of races. Additionally, we offer racing services through our other interests. Our primary source of revenue is commissions on pari-mutuel wagering at our racetracks and off-track betting facilities ("OTBs"). Other sources of revenue include simulcast fees, Indiana riverboat admissions subsidy revenue, admissions, concessions revenue, sponsorship revenues, licensing rights and broadcast fees, lease income and other sources.

We are the majority owner and operator of Hoosier Park at Anderson in Anderson, Indiana, which conducts Thoroughbred, Quarter Horse and Standardbred horse racing ("Hoosier Park"). Hoosier Park is owned by Hoosier Park, LP ("HPLP"), an Indiana limited partnership. We previously entered into a definitive agreement with Centaur, Inc., which was subsequently assigned to Centaur Racing, LLC ("Centaur"), to sell a 26% interest in HPLP for a purchase price of \$8.5 million. We were to retain a 51% interest in HPLP and continue to manage its day-to-day operations. On September 12, 2000, we announced that approval for the sale had been denied as a result of action taken by the Indiana Horse Racing Commission ("IHRC") against Centaur, and as a result the ownership structure has not changed. Centaur's performance under the definitive agreement was guaranteed by an irrevocable Letter of Credit in the amount of \$2.5 million, which

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

management expects to be available to us at the end of Centaur's administrative appeals process, during the fourth quarter of 2000.

Because of the seasonal nature of our business and recent acquisition activity, revenues and operating results for any interim quarter are likely not indicative of the revenues and operating results for the year and are not necessarily comparable with results for the corresponding period of the previous year. We normally earn a substantial portion of our net earnings in the second and third quarters of each year during which all our operations are open for some or all of this period and the Kentucky Derby and the Kentucky Oaks are run.

In Kentucky, two pieces of legislation significant to our operations were passed in the 2000 session of the Kentucky General Assembly. First, an excise tax credit for racetracks was included in the 2000-2002 Kentucky state budget. The measure results in an ultimate credit of nearly \$1.4 million in new revenue, and is earmarked for horsemen's incentives and necessary capital improvements at Churchill Downs racetrack over the next two years.

The Kentucky General Assembly also enacted legislation that eliminates the excise tax on Breeders' Cup Championship Day wagering at any Kentucky track that hosts the event. This legislation is aimed at attracting the Breeders' Cup to Kentucky, and Churchill Downs, on a more frequent basis. On-track wagering for the 2000 Breeders' Cup Day at Churchill Downs totaled \$13.6 million and generated excise taxes of approximately \$475,000. This tax exemption will not become effective until January 1, 2001, and therefore did not apply to the 2000 Breeders' Cup at Churchill Downs. The exemption will continue if the Breeders' Cup returns to Kentucky within three years of the previously held event.

In 1999, the state of Illinois enacted legislation that provides for pari-mutuel tax relief and related tax credits for Illinois racetracks, as well as legislation providing for subsidies to Illinois horse racing tracks from revenues generated by the relocation of a license to operate a riverboat casino gaming facility. Arlington's share of subsidies from the proposed Rosemont casino under the 1999 legislation is expected to range from \$4.6 million to \$8.0 million annually, based on publicly available sources. The 1999 legislation is currently the subject of a lawsuit pending in Cook County, Illinois state court.

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

RESULTS OF OPERATIONS

Pari-mutuel wagering information, including intercompany transactions, for our six racetrack facilities and nine separate OTBs, which are included in their respective racetracks, during the nine months ended September 30, 2000 and 1999 is as follows (\$ in thousands):

	Churchill Downs -----	Hollywood Park* ----	Calder Race Course* -----	Arlington Park* ----	Hoosier Park ----	Ellis Park -----
<b>Live Racing</b>						
2000 handle	\$100,484	\$144,499	\$ 95,544	\$ 65,679	\$ 10,797	\$ 16,686
2000 no. of days	53	65	96	103	119	41
1999 handle	\$93,689	\$139,991	\$110,463	-	\$ 10,747	\$ 19,790
1999 no. of days	47	66	96	-	117	61
<b>Export simulcasting</b>						
2000 handle	\$406,253	\$505,495	\$268,100	\$267,432	\$ 39,372	\$102,512
2000 no. of days	53	65	96	103	119	41
1999 handle	\$334,554	\$496,349	\$238,077	-	\$ 25,247	\$159,965
1999 no. of days	47	66	96	-	117	61
<b>Import simulcasting</b>						
2000 handle	\$93,537	\$191,126	-	\$346,095	\$105,448	\$ 27,616
2000 no. of days	176	142	-	1,370	908	272
1999 handle	\$97,250	\$182,589	-	\$217,338	\$104,399	\$ 26,585
1999 no. of days	181	141	-	1,360	893	261
Number of OTBs	1	-	-	5	3	-
<b>Totals</b>						
2000 handle	\$600,274	\$841,120	\$363,644	\$679,206	\$155,617	\$146,814
1999 handle	\$525,493	\$818,929	\$348,540	\$217,338	\$140,393	\$206,340

\* Pari-mutuel wagering information is provided for the nine months ended September 30, 2000 and 1999. Although the summary reflects handle for the first nine months of 2000 and 1999 as if the acquisitions had taken place at the beginning of the year, only revenues generated since the subsidiaries' acquisition dates have been included in the Company's consolidated statements of earnings.

Nine Months Ended September 30, 2000 Compared to Nine Months Ended  
-----  
September 30, 1999  
-----  
Net Revenues

Net revenues during the nine months ended September 30, 2000 increased \$96.2 million (58%) from \$164.9 million in 1999 to \$261.1 million in 2000. Churchill Downs racetrack revenues increased \$7.0 million (10%) primarily due to \$4.7 million of increased pari-mutuel wagering as a result of having an additional week of live racing, which was transferred from Ellis Park. In addition, Churchill Downs racetrack had increases in pari-mutuel wagering, as well as increases in corporate sponsor event ticket prices, admissions

CHURCHILL DOWNS INCORPORATED

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

and seat revenue and concessions revenue as a result of record attendance on Kentucky Oaks and Kentucky Derby days. Arlington Park contributed \$9.2 million to the first nine months of 2000 net revenues, Hollywood Park revenues increased \$73.9 million to \$75.0 million in 2000 from \$1.1 million in 1999 and Calder Race Course revenues increased \$3.5 million to \$42.6 million in 2000 from \$39.1 million in 1999 due to the timing of the 1999 acquisitions. The Arlington Park merger was completed in the third quarter of 2000, Hollywood Park was acquired in the third quarter of 1999 and Calder Race Course was acquired in the second quarter of 1999. The remaining increase was primarily the result of the \$5.8 million management contract that was in effect from July 1 through the closing of the Arlington Park merger on September 8 offset by a reduction in revenues at Ellis Park related to the reduction from 61 to 41 days of live racing during 2000.

Operating Expenses

Operating expenses increased \$71.5 million (55%) from \$129.5 million in 1999 to \$201.0 million in 2000 primarily as a result of Arlington Park's 2000 operating expenses of \$6.3 million, and increases in Hollywood Park and Calder Race Course operating expenses of \$59.9 million and \$5.2 million, respectively, primarily due to the timing of the acquisitions.

Gross Profit

Gross profit increased \$24.7 million from \$35.4 million in 1999 to \$60.1 million in 2000. The increase in gross profit was primarily the result of the acquisition of Hollywood Park, the merger with Arlington Park and the increase in gross profit for Churchill Downs racetrack due to an increase in the number of live race days and record attendance on Kentucky Oaks and Kentucky Derby days. The Arlington Park management fee also contributed to the increased gross profit for 2000.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by \$8.7 million (75%) from \$11.7 million in 1999 to \$20.4 million in 2000. SG&A expenses at Churchill Downs corporate increased \$2.6 million (38%) 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 1999 acquisitions of Calder Race Course and Hollywood Park resulted in increases of \$1.3 million and \$3.1 million, respectively. In addition, Arlington Park had expenses of \$0.9 million during 2000.

Other Income and Expense

Interest expense increased \$7.2 million from \$4.2 million in 1999 to \$11.4 million in 2000 primarily as a result of borrowings to finance the 1999 acquisitions of Calder Race Course and Hollywood Park.



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

Income Tax Provision

The increase in the income tax provision of \$3.2 million for the nine months ended September 30, 2000 as compared to September 30, 1999 is a result of an increase in pre-tax earnings.

Three Months Ended September 30, 2000 Compared to Three Months Ended

-----  
September 30, 1999  
-----

Net Revenues

Net revenues during the three months ended September 30, 2000 increased \$40.4 million (64%) from \$63.1 million in 1999 to \$103.5 million in 2000. Churchill Downs racetrack revenues increased \$3.4 million (62%) due to \$3.4 million of increased pari-mutuel wagering as a result of having an additional week of live racing, which transferred from Ellis Park. Hollywood Park revenues increased \$23.0 million to \$24.1 million in 2000 from \$1.1 million in 1999. Arlington Park contributed net revenues of \$9.2 million to the three months ended September 30, 2000. The remaining increase, as reflected in other investments, was primarily the result of the \$5.8 million management contract offset by a reduction in revenues at Ellis Park related to the reduction from 61 to 41 days of live racing during the third quarter.

Operating Expenses

Operating expenses increased \$25.6 million (47%) from \$54.7 million in 1999 to \$80.3 million in 2000. This is primarily attributable to the Hollywood Park operating expenses increasing \$18.5 million, and Arlington Park incurred 2000 operating expenses of \$6.3 million.

Gross Profit

Gross profit increased \$14.8 million from \$8.4 million in 1999 to \$23.2 million in 2000. The increase in gross profit was primarily the result of the acquisition of Hollywood Park and the merger with Arlington Park. The Arlington Park management fee also contributed to the increased gross profits for the three months ended September 30, 2000.

Selling, General and Administrative Expenses

SG&A expenses increased by \$2.6 million (55%) from \$4.8 million in 1999 to \$7.4 million in 2000. SG&A expenses at Churchill Downs corporate increased \$0.4 million (17%) due primarily to increased corporate staffing and compensation expenses reflecting the Company's strengthened corporate services to meet the needs of new business units. Hollywood Park expenses increased \$0.9 million primarily due to the timing of the acquisition. The merger with Arlington Park added \$ 0.9 million.

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

Other Income and Expense

Interest expense increased \$1.7 million from \$2.0 million in 1999 to \$3.7 million in 2000 primarily as a result of borrowings to finance the 1999 acquisition of Hollywood Park.

Income Tax Provision

Our income tax provision increased by \$4.1 million for the three months ended September 30, 2000, as compared to September 30, 1999, as a result of an increase in pre-tax earnings of \$10.3 million.

Significant Changes in the Balance Sheet September 30, 2000 to December 31, 1999  
-----

Restricted cash increased \$9.3 million due to the current period separate classification of restricted assets.

Accounts receivable increased \$10.8 million primarily due to the merger with Arlington Park.

Net plant and equipment increased \$64.7 million primarily as a result of the merger with Arlington Park. Additional increases were due to routine capital spending at our operating units offset by depreciation expense and the sale of the Kentucky Horse Center assets during the second quarter of 2000.

Accounts payable increased \$19.8 million at September 30, 2000, primarily due to the merger with Arlington Park. In addition, there were increases in purses payable and other expenses related to simulcast wagering for Churchill Downs racetrack and Hoosier Park.

Accrued expenses increased \$14.2 million primarily as a result of the Arlington Park merger.

Dividends payable decreased \$4.9 million at September 30, 2000, due to the payment of dividends of \$4.9 million (declared in 1999) in first quarter 2000.

Deferred revenue decreased \$5.5 million at September 30, 2000, primarily due to the significant amount of admission and seat revenue that was received prior to December 31, 1999 recognized as income in May 2000 for the Kentucky Derby and Kentucky Oaks race days.

The long-term debt decrease of \$23.7 million was the result of the application of current cash flow to reduce borrowings under our bank line of credit during 2000.

Common stock increased by \$51.5 million primarily due to the issuance of 3.15 million shares of common stock to complete the merger with Arlington Park during the third quarter of 2000.

Significant Changes in the Balance Sheet September 30, 2000 to  
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September 30, 1999  
-----

Restricted cash increased \$9.3 million due to the current period separate classification of restricted assets.

CHURCHILL DOWNS INCORPORATED

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

Accounts receivable increased \$20.3 million at September 30, 2000. The merger with Arlington Park increased accounts receivable by \$15.8 million. In addition, the timing of the 1999 acquisition of Hollywood Park increased accounts receivable by \$3.4 million.

Net plant and equipment increased \$64.0 million primarily as a result of the merger with Arlington Park. Additional increases were due to routine capital spending at our operating units offset by depreciation expense and the sale of the Kentucky Horse Center assets during the second quarter of 2000.

The accounts payable increase of \$14.9 million was primarily due to the merger with Arlington Park which represents \$12.3 million of the increase.

Accrued expenses increased \$19.9 million primarily due to the Arlington Park merger.

The long-term debt net decrease of \$28.9 million was the result of the application of current cash flow to reduce borrowings under our bank line of credit.

Common stock increased by \$51.5 million primarily due to the issuance of 3.15 million shares of common stock to complete the merger with Arlington Park during the third quarter of 2000.

Liquidity and Capital Resources

-----  
The change in working capital between September 30, 2000 and 1999 is a result of the Arlington merger. Cash flows provided by operations were \$20.8 and \$31.3 million for the nine months ended September 30, 2000 and 1999, respectively. The increase in depreciation and amortization is primarily due to the timing of the 1999 acquisitions of Calder Race Course and Hollywood Park. The net decrease in cash resulting from changes in operating assets and liabilities was primarily a result of current period separate classification of restricted assets which represent refundable deposits and amounts due to horseman for purses, stakes and awards. In addition, the accounts payable decrease was primarily due to the timing of the Arlington merger. Management believes cash flows from operations and available borrowings during 2000 will be sufficient to fund our cash requirements for the year, including capital improvements and future acquisitions.

Cash flows used in investing activities were \$11.8 million and \$238.2 million for the nine months ended September 30, 2000 and 1999, respectively. We used \$16.8 million during 2000 for capital spending at our facilities including \$3.0 million for completion of the expansion of Churchill Downs' main entrance and corporate offices. Cash used for 1999 business acquisitions consisted of \$142.5 million for the acquisition of Hollywood Park during the third quarter, \$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.

Cash flows (used in) provided by financing activities were \$(26.7) million and \$228.5 million for the nine months ended September 30, 2000 and 1999, respectively. We borrowed \$66.7 million and repaid \$91.1

CHURCHILL DOWNS INCORPORATED

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

million on our line of credit during 2000. Cash provided by financing activities in 1999 was used to finance the aforementioned acquisitions.

We have a \$250 million line of credit under a revolving loan facility, of which \$154.6 million was outstanding at September 30, 2000. This line of credit is secured by substantially all of our assets and matures in 2004. This credit facility is intended to meet working capital and other short-term requirements and to provide funding for future acquisitions.

Impact of Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivatives and Hedging Activities (SFAS 133), which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS 133, as amended by SFAS 137 and SFAS 138, is effective for the Company's year ending December 31, 2001. Management of the Company is currently analyzing the impact of SFAS 133 but anticipates that the adoption of SFAS 133 will not have a material effect on the Company's results of operations or financial position.

On December 3, 1999, the staff of the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 (SAB 101), Revenue Recognition in Financial Statements. SAB 101 summarizes some of the staff's interpretations of the application of generally accepted accounting principles to revenue recognition. The staff of the SEC issued Staff Accounting Bulletin No. 101B (SAB 101B) which delays the application of the accounting and disclosure requirements to no later than the fourth quarter of the fiscal year beginning after December 15, 1999. Management of the Company is currently analyzing the impact of SAB 101 and plans to adopt the accounting and disclosure requirements in the fourth quarter of 2000. Management does not anticipate the adoption of SAB 101 will have a material effect on the Company's results of operations or financial position.

Pending Transactions

We previously entered into a definitive agreement with Centaur to sell a 26% interest in HPLP for a purchase price of \$8.5 million. We were to retain a 51% interest in HPLP and continue to manage its day-to-day operations. On September 12, 2000, we announced that approval for the sale had been denied as a result of action taken by the IHRC against Centaur, and as a result the ownership structure has not changed. Centaur's performance under the definitive agreement was guaranteed by an irrevocable Letter of Credit in the amount of \$2.5 million, which management expects to be available to us at the end of Centaur's administrative appeals process, during the fourth quarter of 2000.

CHURCHILL DOWNS INCORPORATED

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

At September 30, 2000, we had \$154.6 million of debt outstanding under our revolving loan facility, which bears interest at LIBOR based variable rates. We are exposed to market risk on variable rate debt due to potential adverse changes in the LIBOR rate. Assuming the outstanding balance on the revolving loan facility remains constant, a one percentage point increase in the LIBOR rate would reduce annual pre-tax earnings and cash flows by \$1.5 million.

In order to mitigate a portion of the market risk associated with our variable rate debt, we have entered into interest rate swap contracts with major financial institutions. Under terms of these separate contracts we receive a LIBOR based variable interest rate on notional amounts of \$35.0 million each and pay a fixed interest rate of 7.015% and 7.30%, which mature in March 2003 and May 2002, respectively. Assuming the September 30, 2000, notional amounts under the interest rate swap contracts remain constant, a one percentage point increase in the LIBOR rate would increase annual pre-tax earnings and cash flows by \$0.7 million.

In November 2000, we entered into an interest rate swap in which we pay a fixed interest rate of 6.40% on a notional amount of \$30.0 million, which matures in November 2001. Management plans to engage in further interest rate swap agreements in the future to reduce our interest rate exposure.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

Not Applicable

ITEM 2. Changes in Securities and Use of Proceeds

On September 8, 2000, Churchill Downs Incorporated ("CDI") completed a merger transaction with Arlington International Racecourse pursuant to an Amended and Restated Agreement and Plan of Merger (the "Merger Agreement") dated as of June 23, 2000, as amended as of July 14, 2000, among CDI, Duchossois Industries, Inc. ("DII"), A. Acquisition Corp., A. Management Acquisition Corp., T. Club Acquisition Corp. (A. Acquisition Corp., A. Management Acquisition Corp. and T. Club Acquisition Corp., each a direct or indirect wholly owned subsidiary of CDI, being collectively referred to as the "CDI Companies"), Arlington International Racecourse, Inc., Arlington Management Services, Inc. and Turf Club of Illinois, Inc. (Arlington International Racecourse, Inc., Arlington Management Services, Inc. and Turf Club of Illinois, Inc. being collectively referred to as the "Arlington Companies"). The transaction was completed through the

merger of the CDI Companies with and into the Arlington Companies, with the Arlington Companies being the surviving corporations of the mergers (the "Mergers") and becoming wholly-owned subsidiaries of CDI. In the Mergers, DII received an aggregate of 3,150,000 shares of CDI's common stock, no par value ("CDI Common Stock"), and has the right to receive up to 1,250,000 additional shares of CDI Common Stock, as provided in the Merger Agreement. The purchase price was determined by CDI based upon its analysis of the financial performance and assets of the Arlington Companies.

In issuing the shares in the Merger, CDI relied on the exemption from registration afforded by Rule 506 of Regulation D promulgated pursuant to the Securities Act of 1933, based on the issuance of shares meeting the requirements of Rule 506.

ITEM 3. Defaults Upon Senior Securities

Not Applicable

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

The registrant held a Special Meeting of Shareholders on September 8, 2000. A proposal (Proposal No. 1) to approve the issuance of up to 4,400,000 shares of Churchill Downs common stock to Duchossois Industries, Inc. as consideration for the merger with Arlington International Racecourse, Inc., Arlington Management Services, Inc. and Turf Club of Illinois, Inc. was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 6,449,161 shares were voted in favor of the proposal; 182,195 were voted against; and 41,186 abstained.

The total number of shares of common stock outstanding as of August 8, 2000, the record date of the Special Meeting of Shareholders, was 9,865,449.

ITEM 5. Other Information

Not Applicable

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

A. Exhibits

See exhibit index on page 25.

B. Reports on Form 8-K

Churchill Downs Incorporated filed a Current Report on Form 8-K dated September 8, 2000, under Item 2, "Acquisitions or Disposition of Assets", reporting on the merger of three wholly owned subsidiaries of Churchill Downs Incorporated with Arlington International Racecourse, Inc., Arlington Management Services, Inc. and Turf Club of Illinois, Inc. - all Duchossois Industries, Inc. companies.

Churchill Downs Incorporated filed a Current Report on Form 8-K dated July 27, 2000, under Item 5, "Other Events", reporting the Confidentiality Agreement with Duchossois Industries, Inc. and Arlington International Racecourse, Inc. dated September 15, 1999.

Churchill Downs Incorporated filed a Current Report on Form 8-K dated July 26, 2000, under Item 5, "Other Events", reporting on Churchill Downs Incorporated second quarter results for 2000, amended by Form 8-K/A dated August 2, 2000.

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

November 14, 2000

\s\Thomas H. Meeker

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

November 14, 2000

\s\Robert L. Decker

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

November 14, 2000

\s\Michael E. Miller

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



EXHIBIT INDEX

Numbers -----	Description -----	By Reference To -----
(2)	Amended and Restated Agreement and Plan of Merger dated as of June 23, 2000, as amended as of July 14, 2000, by and among Churchill Downs Incorporated, Duchossois Industries, Inc., A. Acquisition Corp., A. Management Acquisition Corp., T. Club Acquisition Corp., Arlington International Racecourse, Inc., Arlington Management Services, Inc., Turf Club of Illinois, Inc.	Annex A of the Proxy Statement for a Special Meeting of Shareholders of Churchill Downs Incorporated dated September 8, 2000
(3)	Restated Bylaws of Churchill Downs Incorporated as amended	Page 26, Report on Form 10-Q for the fiscal quarter ended September 30, 2000
(10)	Churchill Downs Incorporated Amended and Restated Incentive Compensation Plan (1997)*	Page 38, Report on Form 10-Q for the fiscal quarter ended September 30, 2000
(27)	Financial Data Schedule for the fiscal quarter ended September 30, 2000	Page 47, Report on Form 10-Q for the fiscal quarter ended September 30, 2000

\* Management contract or compensatory plan or agreement.



CHURCHILL DOWNS INCORPORATED

ARTICLE I

OFFICE AND SEAL

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

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

ARTICLE II

STOCKHOLDERS MEETINGS AND RECORD DATES

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

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

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

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

SECTION 4. NOTICE OF MEETINGS. Written notice stating the place, day

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

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

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

as to the stockholders entitled to examine such list or share ledger or stock transfer book, or the stockholders entitled to vote at any meeting of stockholders or to receive any dividend.

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

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

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

No business may be transacted at any meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before

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

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

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

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

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

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

### ARTICLE III

#### DIRECTORS

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

SECTION 2. NUMBER AND TENURE. The Board of Directors shall consist of fifteen (15) members but the number may be increased or decreased by amendment of this Bylaw. The Directors shall be divided into three classes, consisting of five (5) Class I Directors, five (5) Class II Directors and five (5) Class III Directors. Each director shall hold office for a term of three (3) years or until his successor shall have been elected and qualifies for the office, whichever period is longer. Directors Emeritus may attend all regular and special meetings of the Board of Directors and shall serve in an advisory capacity without a vote in Board actions.

SECTION 3. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this bylaw, immediately after, and at the same place as, the annual meeting of stockholders. The Board of Directors may provide, 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 five (5) Directors who shall be appointed by the Board annually. Each member of the Compensation Committee shall be a director who is not, during the one year prior to service or during such service, granted or awarded equity securities pursuant to any executive compensation plan of the Company. It shall be the duty of the Compensation Committee to administer the Company's Supplemental Benefit Plan[s], the Company's Incentive Compensation Plan[s], the Company's Stock Option Plan[s], any executive compensation plan and any shareholder approved employee stock purchase or thrift plan, including without limitation, matters relating to the amendment, administration, interpretation, employee eligibility for and participation in, and termination of, the foregoing plans. It shall further be the duty of the Compensation Committee to review annually the salary paid to the President and Chief Executive Officer of the Company and to exercise any other authorities relating to compensation that the Board may lawfully delegate to it; provided, however, the Compensation Committee shall not have the power to enter into any employment agreement with an officer of the Company without the specific approval and ratification of the Board of Directors.

SECTION 5. THE RACING COMMITTEE. The Board of Directors 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.

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

ARTICLE 1

PURPOSE

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

ARTICLE 2

DEFINITIONS

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

A. Beneficiary. A person or persons (natural or otherwise) designated by a Participant in accordance with the provisions of Article 8 to receive any benefits which shall be payable under this Plan.

B. Board. The Board of Directors of Churchill Downs Incorporated.

C. Budget. The annual operating budget approved by the Board for each year during the term of the Plan.

D. CEO. The Chief Executive Officer of Churchill Downs Incorporated.

E. Company. Churchill Downs Incorporated and its subsidiaries.

F. Company Achievement Percentage Levels. The percentages established annually by the Committee to be used, as provided in Section 6.2, in computing a part of an Annual Incentive Compensation Award based upon achievement of a Company Performance Goal.

G. Company Performance Goals. The goal defined in Section 6.1.A.

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H. Disability. A physical or mental condition arising after the Effective Date hereof which qualifies a Participant for disability benefits under the Social Security Act in effect on the date of disability.

I. Discretionary Achievement Percentage Levels. The percentages established annually by the Committee to be used, as provided in Section 6.5, in computing a part of an Annual Incentive Compensation Award, based upon achievement of a Discretionary Performance Goal.

J. Discretionary Performance Goals. The goals defined in Section 6.1.D.

K. Effective Date. January 1, 1997.

L. Incentive Compensation Award. The award as defined in Article 6. An award under the Churchill Downs Incorporated Incentive Compensation Plan (1997) during any year shall be an "Annual Incentive Compensation Award."

M. Participant. An employee of the Company who is selected for participation in the Plan in accordance with the provisions of Article 5. For purposes of Articles 7 and 8, the term Participant shall also include a former employee who is entitled to benefits under this Plan.

N. Participation Classification. The classification

assigned to each Participant in accordance with the provisions of Article 5.

O. Participation Percentage. The percentages of participation in the Plan as defined in Article 6.

P. Performance Goals. The performance goals as defined in Article 6.

Q. Plan. The Churchill Downs Incorporated Incentive Compensation Plan (1997).

R. Plan Year. The twelve-month period commencing on January 1 of one calendar year and ending on December 31 of the same calendar year, which period is also the Company's fiscal year.

S. Profit Center. Each Churchill Downs Incorporated racing operation, Churchill Downs Incorporated Corporate Sales, Churchill Downs Management Company, and any other profit centers designated by the CEO.

T. Pre-tax Income. The annual consolidated income of the Company, before federal and state income taxes, after any allowance for payments



made or to be made under this Plan, and after inclusion of all extraordinary revenues and deduction of all extraordinary expenses, all as calculated in accordance with generally accepted accounting principles consistently applied and confirmed by the audit report of the Company's independent public accountants.

U. Profit Center Achievement Percentage Levels. The percentages established annually by the Committee to be used, as provided in Section 6.3, in computing a part of an Annual Incentive Compensation Award, based upon achievement of a Profit Center Performance Goal.

V. Profit Center Performance Goals. The goals defined in Section 6.1.B.

W. Salary. The Participant's base annual salary as set by either the Compensation Committee of the Board or the CEO.

X. Service Center. The Finance, Development & Technology Service Center, the Legal Service Center, the Corporate Communications Service Center, and any other service center designated by the CEO.

Y. Service Center Achievement Percentage Levels. The percentages established annually by the Committee to be used, as provided in Section 6.4, in computing a part of an Annual Incentive Compensation Award based upon achievement of a Service Center Performance Goal.

Z. Service Center Performance Goals. The goals defined in Section 6.1.C.

AA. Termination Date. December 31, 2001, or such earlier date as may be determined under Section 9.2.

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

### ARTICLE 3

#### ADMINISTRATION

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

3.2 Committee's Power and Authority. The Committee shall have full and complete authority and power, subject only to the direction of the Board, to administer the Plan in accordance with its terms and carry out the provisions of the Plan. The Committee shall

interpret the Plan and shall determine all questions, factual, legal or otherwise, arising in the administration, interpretation and application of the Plan, including but not limited to questions of eligibility and the status and rights of Participants, Beneficiaries and other persons. The Committee shall have any and all power and authority (including discretion with respect to the exercise of such power and authority) which shall be necessary, properly advisable, desirable, or convenient to enable it to carry out its duties under the Plan. By way of illustration and not limitation, the Committee is empowered and authorized to make rules and regulations in respect to the Plan not inconsistent with the Plan; to determine, consistently therewith, all questions that may arise as to the eligibility, benefits, status and right of any person claiming benefits under the Plan; to determine whether a Participant was terminated for just cause; and subject to and consistent with, any applicable laws, to make factual determinations, to construe and interpret the Plan and correct any defect, supply any omissions or reconcile any inconsistencies in the Plan. Any such determination by the Committee shall presumptively be conclusive and binding on all persons. The regularly kept records of the Company shall be conclusive and binding upon all persons with respect to a Participant's date and length of employment, time and amount of salary and the manner of payment thereof, type and length of any absence from work and all other matters contained therein relating to employment. All rules and determinations of the Committee shall be uniformly and consistently applied to all persons in similar circumstances.

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

#### ARTICLE 4

##### EFFECTIVE DATE AND TERMINATION

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

#### ARTICLE 5

##### ELIGIBILITY AND PARTICIPATION

5.1 Eligibility. All Company officers and other key management employees who are employed by the Company on the date of the adoption of this Plan and who are specifically designated by the Committee as Participants shall be Participants in the Plan as of January 1, 1997. In addition, any officers and other key management employees who are subsequently designated by the Committee as participants shall become Participants in the Plan on the date established by the Committee for such participation. Once an employee becomes a Participant, he will remain a Participant until the earliest of: [i] termination of this Plan; [ii]

termination of his active service with the Company; or [iii] termination of his status as a Participant by decision of the Committee, provided, however, that a Participant will be terminated from participation in the Plan only at the beginning of a Plan Year.

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

## ARTICLE 6

### ANNUAL INCENTIVE COMPENSATION AWARDS

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

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

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

C. In the case of Classes to which Participants working in Service Centers are assigned, such Service Center meets certain objective financial and other criteria established by the CEO and the Senior Vice President

of that Service Center for the applicable year: the "Threshold Service Center Goal" (90% of the Service Center's established criteria); the "Target Service Center Goal" (100% of the Service Center's established criteria); and the "Maximum Service Center Goal" (115% of the Service Center's established criteria) (the "Service Center Performance Goal[s]"). Achievement of the Service Center Performance Goals shall be determined in the CEO's sole discretion. The Committee shall establish annually the percentage of the Annual Incentive Compensation Award which is awarded to each Participant based upon the Service Center Performance Goals (the "Service Center Performance Goals Percentage").

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

#### 6.2 Computation of Award Based Upon Company Performance Goals.

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

#### 6.3 Computation of Award based on Profit Center Performance Goals.

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

#### 6.4 Computation of Award based on Service Center Performance Goals.

For each Plan Year for which the Company achieves at least the Threshold Company Performance Goal and the Service Center in which that Participant works achieves at least its Threshold

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

6.5 Computation of Award based on Discretionary Performance Goals. For each Plan Year for which the Company achieves at least the Threshold Company Performance Goal and that Participant achieves at least his/her Threshold Discretionary Performance Goal, a Participant may be awarded an Annual Incentive Compensation Award which shall be computed by multiplying: (i) the Participant's Salary for the Plan Year; by (ii) the Participation Percentage as established annually by the Committee; by (iii) the Discretionary Performance Goals Percentage for the Participant's Class as established annually by the Committee; by (iv) the applicable Discretionary Achievement Percentage Level as established annually by the Committee. Notwithstanding the foregoing, the Discretionary Achievement Percentage Level for any Plan Year shall not exceed the Company Achievement Percentage Level for that Plan Year. The CEO, in his/her sole discretion, shall determine whether a Participant has met Discretionary Performance Goals.

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

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

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

## ARTICLE 7

### PAYMENT OF BENEFITS

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

## ARTICLE 8

### DESIGNATION OF BENEFICIARIES

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

## ARTICLE 9

### MISCELLANEOUS PROVISIONS

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

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

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

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

9.5 Non-Guarantee of Employment. Neither the existence of this Plan nor any award or benefit granted pursuant to it shall create any right to continued employment of any Participant by the Company. No Participant shall, under any circumstances, have any interest

whatsoever, vested or contingent, in any particular property or asset of the Company by virtue of any award, unpaid bonus or other accrued benefit under the Plan.

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

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

5  
1,000  
U.S. Dollars

9-MOS  
DEC-31-2000  
JAN-01-2000  
SEP-30-2000

1	20,629
0	
35,096	
(357)	
428	
60,352	
	533,038
	(193,445)
	471,681
82,034	
	0
	123,149
0	
	0
471,681	83,451
	261,120
261,120	
	200,954
	221,348
(261)	
0	
11,353	
28,680	
11,802	
16,878	
0	
0	
	0
	16,878
	1.67
	1.66