SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the quarterly period ended: June 30, 1997

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 | 61-0156015 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

700 CENTRAL AVENUE, LOUISVILLE, KY 40208
(Address of principal executive offices)
(Zip Code)

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

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

Yes X No______

The number of shares outstanding of registrant's common stock at August 8, 1997 was 3,654,264 shares.



CHURCHILL DOWNS INCORPORATED

I N D E X

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| ASSETS | June 30 1997 | December 31 1996 | June 30 1996 |
|---|---|---|---|
| Current assets: | | | |
| Cash and cash equivalents | $16,156,852 | $ 8,209,414 | $14,028,675 |
| Accounts receivable | 12,472,948 | 5,218,236 | 5,553,215 |
| Other current assets | 698,316 | 679,221 | 207,075 |
| Total current assets | 29,328,116 | 14,106,871 | 19,788,965 |
| Other assets | 3,641,979 | 3,739,906 | 4,046,354 |
| Plant and equipment | 102,842,179 | 100,025,412 | 98,852,730 |
| Less accumulated depreciation | (39,195,894) | (37,143,223) | (35,128,935) |
| | 63,646,285 | 62,882,189 | 63,723,795 |
| | $96,616,380 | $80,728,966 | $87,559,114 |

| LIABILITIES AND STOCKHOLDERS' EQUITY | June 30 1997 | December 31 1996 | June 30 1996 |
|---|---|---|---|
| Current liabilities: | | | |
| Accounts payable | $12,570,920 | $ 7,575,573 | $12,209,115 |
| Accrued expenses | 7,757,233 | 5,802,330 | 3,759,193 |
| Dividends payable | - | 2,375,271 | - |
| Income taxes payable | 6,839,208 | 2,510,508 | 6,539,508 |
| Deferred revenue | 1,127,166 | 6,511,902 | 1,200,753 |
| Long-term debt, current portion | 73,893 | 73,893 | 70,097 |
| Total current liabilities | 28,368,420 | 24,849,477 | 23,778,666 |
| Long-term debt, due after one year | 2,781,462 | 2,925,298 | 2,950,079 |
| Outstanding mutuel tickets (payable after one year) | 3,574,724 | 2,031,500 | 3,189,408 |
| Deferred compensation | 857,274 | 825,211 | 958,312 |
| Deferred income taxes | 2,316,600 | 2,316,600 | 2,415,500 |
| Stockholders' equity: | | | |
| Preferred stock, no par value; authorized, 250,000 shares; issued, none | - | - | - |
| Common stock, no par value; authorized, 10 million shares, issued 3,654,264 shares, June 30, 1997 and December 31, 1996 and 3,725,955 shares, June 30, 1996 | 3,493,042 | 3,493,042 | 3,450,078 |
| Retained earnings | 55,289,858 | 44,352,838 | 51,018,421 |
| Deferred compensation costs | - | - | (136,350) |
| Note receivable for common stock | (65,000) | (65,000) | (65,000) |
| | 58,717,900 | 47,780,880 | 54,267,149 |
| | $96,616,380 | $80,728,966 | $87,559,114 |

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

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
for the six months ended June 30, 1997 and 1996
(Unaudited)

| | SIX MONTHS ENDED JUNE 30 | |
|---|---|---|
| | 1997 | 1996 |
| Net revenues | $74,058,499 | $66,490,002 |
| Operating expenses | 51,986,126 | 46,450,327 |
| Gross earnings | 22,072,373 | 20,039,675 |
| Selling, general and administrative expenses | 4,392,127 | 3,845,423 |
| Operating income | 17,680,246 | 16,194,252 |
| Other income and expense: | | |
| Interest income | 196,840 | 94,631 |
| Interest expense | (148,710) | (147,035) |
| Miscellaneous, net | 198,644 | 81,804 |
| | 246,774 | 29,400 |
| Earnings before income tax provision | 17,927,020 | 16,223,652 |
| Federal and state income tax provision | (6,990,000) | (6,400,000) |
| Net earnings | 10,937,020 | 9,823,652 |
| Retained earnings, beginning of period | 44,352,838 | 41,194,769 |
| Retained earnings, end of period | $55,289,858 | $51,018,421 |
| Net earnings per share (based on weighted average shares outstanding of 3,655,899 and 3,768,632 respectively) | $2.99 | $2.61 |

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

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
for the three months ended June 30, 1997 and 1996
(Unaudited)

| | THREE MONTHS ENDED JUNE 30 | |
|---|---|---|
| | 1997 | 1996 |
| Net revenues | $60,779,635 | $54,939,249 |
| Operating expenses | 37,562,122 | 33,230,109 |
| Gross earnings | 23,217,513 | 21,709,140 |
| Selling, general and administrative expenses | 2,401,844 | 2,071,556 |
| Operating income | 20,815,669 | 19,637,584 |
| Other income and expense: | | |
| Interest income | 130,460 | 50,628 |
| Interest expense | (68,494) | ( 50,837) |
| Miscellaneous, net | 68,071 | 34,490 |
| | 130,037 | 34,281 |
| Earnings before income tax provision | 20,945,706 | 19,671,865 |
| Federal and state income tax provision | (8,160,000) | (7,775,000) |
| Net earnings | 12,785,706 | 11,896,865 |
| Retained earnings, beginning of period | 42,504,152 | 39,121,556 |
| Retained earnings, end of period | $55,289,858 | $51,018,421 |
| Net earnings per share (based on weighted average shares outstanding of 3,655,952 and 3,751,183 respectively) | $3.50 | $3.17 |

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

CHURCHILL DOWNS INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the six months ended June 30, 1997 and 1996
(Unaudited)

| | SIX MONTHS ENDED JUNE 30 | |
|---|---|---|
| | 1997 | 1996 |
| Cash flows from operating activities: | | |
| Net earnings | $10,937,020 | $ 9,823,652 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 2,248,616 | 2,294,718 |
| Increase (decrease) in cash resulting from changes in operating assets and liabilities: | | |
| Accounts receivable | (7,254,712) | (3,454,314) |
| Other current assets | (19,095) | 342,745 |
| Income taxes payable | 4,328,700 | 5,490,000 |
| Deferred revenue | (5,384,736) | (4,897,788) |
| Accounts payable, accrued expenses, and other | 8,449,708 | 7,614,044 |
| Net cash provided by operating activities | 13,305,501 | 17,213,057 |
| Cash flows from investing activities: | | |
| Additions to plant and equipment, net | (2,838,956) | (1,401,267) |
| Net cash used in investing activities | (2,838,956) | (1,401,267) |
| Cash flows from financing activities: | | |
| Decrease in long-term debt, net | (143,836) | (3,401,000) |
| Dividend paid | (2,375,271) | (1,892,302) |
| Common stock repurchased | - | (2,346,001) |
| Net cash used in financing activities | (2,519,107) | (7,639,303) |
| Net increase in cash and cash equivalents | 7,947,438 | 5,856,188 |
| Cash and cash equivalents, beginning of period | 8,209,414 | 5,856,188 |
| Cash and cash equivalents, end of period | $16,156,852 | $14,028,675 |

Supplemental Disclosures of cash flow information:

| | | |
|---|---|---|
| Cash paid during the period for: | | |
| Interest | $115,290 | $219,601 |
| Income taxes | $2,640,000 | $710,000 |

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

CHURCHILL DOWNS INCORPORATED

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 1997 and 1996
(Unaudited)

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

During the six months ended June 30, 1997 and 1996 the Company conducted simulcast receiving wagering for 682 and 661 location days, respectively, which includes simulcast wagering at its Sports Spectrum site in Louisville, Kentucky for 92 days in 1997 compared to 84 days in 1996. Through its subsidiary, Hoosier Park L.P. ("Hoosier Park"), the Company conducted simulcast wagering at its racetrack in Anderson, Indiana and at three simulcast wagering facilities located in Merrillville, Ft. Wayne and Indianapolis, Indiana for a total of 590 days during the six month period compared to 577 days in 1996. Additionally, the Company conducts simulcast wagering on-track during its Churchill Downs and Hoosier Park live race meets.

2. The accompanying consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by generally accepted accounting principles or those normally made in the Company's annual report on Form 10-K. The year end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. Accordingly, the reader of this Form 10-Q may wish to refer to the Company's Form 10-K for the period ended December 31, 1996 for further information. The accompanying consolidated financial statements have been prepared in accordance with the registrant's customary accounting practices and have not been audited. In the opinion of management, all adjustments necessary for a fair presentation of this information have been made and all such adjustments are of a normal recurring nature.

3. The Company has an unsecured $20,000,000 bank line of credit with various options for the interest rate, none of which are greater than the bank's prime rate. The line of credit expires January 31, 1998. There were no borrowings outstanding at June 30, 1997, December 31, 1996 and June 30, 1996.

4. Certain balance sheet and statement of operations items have been reclassified in the prior year to conform to current period presentation.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended June 30, 1997 and 1996 (continued)
(Unaudited)

5. On January 22, 1992, the Company acquired certain assets of Louisville Downs, Incorporated for $5,000,000. In conjunction with this purchase, the Company withheld $1,000,000 from the amount due to the sellers to offset certain costs related to the remediation of environmental contamination associated with underground storage tanks at the site. Substantially, all of the $1,000,000 hold back has been utilized as of June 30, 1997. The Company awaits a ruling from the Commonwealth of Kentucky on whether the remediation is complete.

It is not anticipated that the Company will have any material liability as a result of compliance with environmental laws with respect to any of the Company's property. Compliance with environmental laws has not otherwise affected development and operation of the Company's property and the Company is not otherwise subject to any material compliance costs in connection with federal or state environmental laws.

6. In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128). SFAS 128 is designed to improve the EPS information provided in financial statements by simplifying the existing computational guidelines. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997. The Company does not expect adoption of this standard will have a material impact on its future or previously reported earnings per share.

7. In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. SFAS 130 is effective for financial statements issued for periods ending after December 15, 1997. The Company does not expect adoption of this standard will have a material impact on its financial statements.

8. In July 1997, BC Racing Group, LLC (BC), of which the Company is a 24% owner, purchased Dueling Grounds racecourse for $11 million at a Federal Bankruptcy Court sale after having purchased underlying mortgage notes to the property from the mortgagee at a discount. Located in Franklin, Kentucky, just north of Nashville, Tennessee, Dueling Grounds opened in 1991, conducting short race meets and year-round simulcasting. The Company has one seat on the four-person Management Committee of BC. The Company will account for its investment in BC of $2,187,500 under the equity method of accounting.

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

## RESULTS OF OPERATIONS

This discussion and analysis contains both historical and forward-looking information. The forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements regarding riverboat competition and alternative gaming legislation may be significantly impacted by certain risks and uncertainties described herein, and in the Company's annual report on Form 10-K for the year ended December 31, 1996.

The Company's principal business is conducting pari-mutuel wagering on Thoroughbred and Standardbred horse races. The Kentucky Derby and Kentucky Oaks, which are run on the first weekend in May of each year, continue to be the Company's outstanding attractions. In the second quarter of 1997, the Company again offered the simulcast of its races on Kentucky Derby Day to racetracks within Kentucky. In 1997, Derby weekend accounted for approximately 30% of total on-track pari-mutuel wagering and 34% of total on-track attendance for the 1997 Spring Meet at Churchill Downs compared to 30% and 35%, respectively, in 1996.

The Company, through its subsidiary, Hoosier Park, L.P. ("Hoosier Park"), is majority owner and operator of Indiana's only pari-mutuel racetrack, Hoosier Park in Anderson, Indiana. The Company conducted live harness racing in the second quarter beginning April 24, 1997 through the end of June 1997 and will continue the harness meet through August 24, 1997. Average daily attendance and daily handle figures were down by 10 and 8 percent, respectively, compared to the 1996 harness race meet. The Company is continuing to evaluate sites for a fourth satellite wagering facility in Indiana.

Because of the seasonal nature of the Company's business, revenues and operating results for any interim quarter are not indicative of the revenues and operating results for the year and are not necessarily comparable with results for the corresponding period of the previous year. During the second quarter of 1997, the Company earned a substantial portion of its expected net income for the year from the running of the Kentucky Derby and the Kentucky Oaks.

The Company's primary sources of income are commissions and fees earned from pari-mutuel wagering on live and simulcast horse races. Other significant sources of income include admissions and seating, concession commissions (primarily for the sale of food and beverage items), riverboat admission tax supplement, and license, rights and broadcast and sponsorship fees.

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

In Kentucky, licenses to conduct Thoroughbred race meetings and to participate in simulcasting are approved annually by the Kentucky Racing Commission based upon applications submitted by the racetracks in Kentucky, including the Company. Based on gross figures for on-track pari-mutuel wagering and attendance, the Company is the leading Thoroughbred racetrack in Kentucky. The Company conducted live racing from April 26 through June 29, 1997, and has been granted a license to conduct live racing during the period October 26 through November 29, 1997 for a total of 77 racing days in Kentucky compared to 78 racing days in 1996. During the second quarter, the company has submitted an application to the Kentucky Racing Commission to conduct live racing in Kentucky from April 25, 1998 through June 28, 1998 (Spring Meet) and from November 1, 1998 through November 28, 1998 (Fall Meet).

In Indiana, licenses to conduct live Standardbred and Thoroughbred race meetings and to participate in simulcasting are approved annually by the Indiana Horse Racing Commission based upon applications submitted by the Company. Currently, the Company is the only facility in Indiana licensed to conduct live Standardbred or Thoroughbred race meetings and to participate in simulcasting. In Indiana the Company has been granted a license to conduct live racing in 1997 for a total of 143 racing days, including 85 days of Standardbred racing from April 24 through August 24, 1997, and 58 days of Thoroughbred racing from September 12 through November 29, 1997. In 1996, the Company conducted live racing for a total of 132 racing days, including 80 days of Standardbred racing and 52 days of Thoroughbred racing.

With the advent of whole card simulcasting, the Company conducts interstate simulcasting year-round on multiple racing programs each day from around the nation. For 1997, the Company has been granted a license to operate simulcast receiving locations in Kentucky and Indiana for all dates from January 1 through December 31 and intends to receive simulcasting on all days it is economically feasible. The number of receiving days in Kentucky and Indiana has increased eight and thirteen days, respectively, in 1997 compared to 1996. Hoosier Park may ultimately be supported by a fourth whole card simulcasting facility. An increase in the number of days or facilities would be expected to enhance operating results.

Because the business of the Company is seasonal, the number of persons employed will vary throughout the year. Approximately 600 individuals are employed on a permanent year-round basis. During the second quarter, as many as 2,600 persons were employed.

In the first six months of 1996, two riverboat casinos were operating on the Ohio River along Kentucky's border -- one in southwestern Indiana and one at Metropolis, Illinois. In the Fall of 1996, two additional riverboats opened in southeastern Indiana. Direct competition with these riverboats negatively impacted wagering at racetracks in western and northern Kentucky in 1996.

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

The Company implemented an aggressive on-track marketing program in 1997 which management believes was a primary reason for the increased attendance and handle during its 1997 Spring meet in spite of the increasing riverboat competition.

During the next two years, a fifth riverboat may be operating along the Ohio River. One of the nation's largest riverboat complexes is proposed to be located 10 miles from Louisville in Harrison County, Indiana. Studies project that once all five riverboats are open and mature, Churchill Downs could experience as much as a 30% decline in on-track wagering and a 20% decline in the Louisville, Kentucky, Sports Spectrum business.

The Company's Board of Directors passed a resolution in June 1996, instructing the Company's management to aggressively pursue alternative forms of gaming at its racetrack facilities in Louisville as an additional means of combating the negative effects of riverboat competition. The integration of alternative gaming products at the racetrack is one of four core business strategies developed by the Company to position itself to compete in this changing environment. Implementing these strategies, the Company has successfully grown its live racing product by strengthening its flagship operations, increasing its share of the interstate simulcast market, and geographically expanding its racing operations into Indiana. Alternative gaming in the form of video lottery terminals and slot machines would enable Churchill Downs to better compete with Indiana riverboat casinos, and provide new revenue for purse money and capital investment.

In Indiana, licenses allowing up to five riverboat casinos on Lake Michigan near the Company's Merrillville Sports Spectrum have been granted by the Indiana Gaming Commission. Three riverboats opened on Lake Michigan in June 1996, while a fourth opened in April 1997. The fifth Lake Michigan riverboat is scheduled to open in August 1997. The Company's pari-mutuel wagering activities at the Merrillville facility have been adversely impacted by the opening of these Lake Michigan riverboats.

Additionally, the Potawatomi Indian Tribe has expressed an interest in establishing land-based casino operations in southwestern Michigan and northeastern Indiana, while the Miami Indian Tribe has expressed an interest in establishing a land-based casino near the Company's Merrillville Sports Spectrum. The Company continues to anticipate that such operations will negatively impact pari-mutuel wagering activities at its Indiana facilities. The extent of the impact is unknown at this time due, in part, to the uncertain geographic distances between the Company's operations and the number of potential casino sites.

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

In May, 1997 the Indiana General Assembly convened in special session and passed a budget bill, which did not include provisions similar to those included in House Bill 1135 which would have materially reduced Hoosier Park's share of a riverboat admissions tax. There is no assurance that a similar bill will not be introduced in the future.

The Company owned and operated two live racing facilities and four simulcast wagering facilities during the six month periods ended June 30, 1997 and 1996. The chart below summarizes attendance and wagering handle for the operations in 1997 and 1996 for the six month periods:

| | KENTUCKY | | | INDIANA | | |
|---|---|---|---|---|---|---|
| | Six Months Ended June 30 1997 | Six Months Ended June 30 1996 | Increase (DECREASE) | Six Months Ended June 30 1997 | Six Months Ended June 30 1996 | Increase (DECREASE) |
| ON-TRACK | | | | | | |
| Number of Race Days | 47 | 48 | (1) | 45 | 43 | 2 |
| Attendance | 687,533 | 685,228 | - | 46,117 | 48,974 | -6% |
| Handle | $96,580,365 | $95,077,056 | 2% | $4,944,802 | $5,154,518 | -4% |
| Average Daily Attendance | 14,628 | 14,276 | 2% | 1,025 | 1,139 | -10% |
| Average Daily Handle | $2,054,901 | $1,980,772 | 4% | $109,884 | $119,873 | -8% |
| Per Capita Handle | $140.47 | $138.75 | 1% | $107.22 | $105.24 | 2% |
| INTERTRACK/SIMULCAST-HOST (SENDING) | | | | | | |
| Number of Race Days | 47 | 48 | (1) | 45 | 43 | 2 |
| Handle | $269,226,795 | $245,018,693 | 10% | $3,964,102 | $1,116,693 | 255% |
| Average Daily Handle | $5,728,230 | $5,104,556 | 12% | $88,091 | $25,969 | 239% |
| INTERTRACK/SIMULCAST-RECEIVING* | | | | | | |
| Number of Race Days | 92 | 84 | 8 | 590 | 577 | 13 |
| Attendance | 186,596 | 195,552 | -5% | ** | ** | ** |
| Handle | $57,185,249 | $52,340,744 | 9% | $65,761,722 | $69,946,803 | -6% |
| Average Daily Attendance | 2,028 | 2,328 | -13% | ** | ** | ** |
| Average Daily Handle | $621,579 | $623,104 | - | $111,461 | $121,225 | -8% |
| Per Capita Handle | $306.47 | $267.66 | 14% | ** | ** | ** |
| Total Handle | $422,992,409 | $392,436,493 | 8% | $74,670,626 | $74,880,342 | - |

* The Company's Indiana operations include four separate simulcast wagering facilities.

** Attendance figures are not kept for the off-track wagering facilities in Indiana.

Total handle in Kentucky increased approximately $30.6 million (8%) primarily as a result of a 10% increase in simulcast-host handle. The Company's live races at Churchill Downs were transmitted to a record number of outlets across the nation for the 1997 Spring Meet.

In Indiana, total handle remained relatively flat decreasing approximately $210,000. Increased simulcast-host handle of 255% was more than offset by decreases in both on-track and simulcast-receiving handle of 4% and 6 %, respectively, as a result of increased riverboat competition. On-track average daily attendance and average daily handle figures decreased by 10% and 8%, respectively.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 1997 TO 1996

NET REVENUES

Net revenues during the six months ended June 30, 1997 increased approximately $7.6 million (11%). Approximately $2.2 million of the total net revenue increase was the result of increased simulcast-receiving pari-mutuel revenues at Churchill Downs generated from Kentucky operations. The construction of an on-site simulcast wagering facility used during live racing in Kentucky as well as growth at the Sports Spectrum wagering facility during non-live racing times generated the positive variance for Kentucky operations. This increase was partially offset by a $300,000 decline in simulcast-receiving revenues in Indiana. Simulcast-host revenues also contributed to the increase in total net revenues, with the Company's live races being transmitted to a record number of outlets across the nation.

Admission and seat revenue increased $360,000 primarily due to increases in admission prices on Kentucky Oaks and Derby days. License, rights, broadcast and sponsorship revenues increased due to new corporate sponsors during the Spring Meet at Churchill Downs which included new sponsors for three steeplechase races held for the first time since the late 1800's. Concession revenues declined as a result of concession price reductions as part of the Company's aggressive on-track marketing program. Derby expansion area revenues increased as additional space was added for corporate sponsors for the Kentucky Derby and Oaks days.

Riverboat admissions revenue from the Company's Indiana operations increased $4.9 million primarily as a result of the opening of additional riverboats along the Ohio River and Lake Michigan since June 30, 1996. The net increase in riverboat admissions revenue, after required purse and marketing expenses of approximately $3 million, is $1.9 million.

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

Following is a summary of Net Revenues:

NET REVENUE SUMMARY

| | Six Months Ended June 30, 1997 | % of Net Revenue | Six Months Ended June 30, 1996 | % of Net Revenue | 1997 VS. 1996 $ Change | 1997 VS. 1996 % Change |
|---|---|---|---|---|---|---|
| Pari-Mutuel Revenue: | | | | | | |
| On-track | 13,356,239 | 18% | $13,636,521 | 20% | ($280,282) | -2% |
| Intertrack-Host | 4,410,467 | 6 | 4,906,386 | 7 | (495,919) | -10 |
| Simulcast-Receiving | 19,233,141 | 26 | 17,278,345 | 26 | 1,954,796 | 11 |
| Simulcast Host | 9,191,211 | 12 | 8,391,321 | 13 | 799,890 | 10 |
| | $46,191,058 | 62% | $44,212,573 | 66% | $1,978,485 | 4% |
| Admission & Seat Revenue | 10,681,419 | 15 | 10,322,496 | 15 | 358,923 | 3 |
| License, Rights, Broadcast & Sponsorship Revenue | 5,833,765 | 8 | 5,432,850 | 8 | 400,915 | 7 |
| Concession Commission | 1,531,761 | 2 | 1,798,167 | 3 | (266,406) | -15 |
| Program Revenue | 1,696,010 | 2 | 1,865,790 | 3 | (169,780) | -9 |
| Riverboat Admissions Revenue | 5,430,462 | 7 | 527,679 | 1 | 4,902,783 | 929 |
| Derby Expansion Area | 1,337,350 | 2 | 1,128,270 | 2 | 209,080 | 19 |
| Other | 1,356,674 | 2 | 1,202,177 | 2 | 154,497 | 13 |
| | $74,058,499 | 100% | $66,490,002 | 100% | $7,568,497 | 11% |

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

OPERATING EXPENSES

In Kentucky and Indiana, purse expense varies directly with pari-mutuel revenues and is calculated as a percentage of the related revenue and may change from year to year pursuant to contract or statute. Accordingly, on-track, intertrack and simulcast purses reflect changes in direct proportion to changes in pari-mutuel revenues for the same categories. The increase in riverboat purses of $2.6 million is directly related to the $4.9 million increase in riverboat admissions revenue.

Wages and contract labor increased $890,000. General wage increases, including a new pari-mutuel clerks union contract in Kentucky which increased mutuel clerks' wages, account for a significant portion of the variance.

Advertising, marketing & publicity expenses increased $606,000 which includes an increase in the Churchill Downs direct marketing expenses as part of the aggressive marketing plan initiated during the live racing meet.

Simulcast host fees increased primarily as a result of expansion of whole-card wagering during the Spring live racing meet.

Audio, video and signal distribution expense increases of $269,000 represents costs associated with the greater number of sites being sent the Company's live racing products and additional equipment for enhanced and expanded areas for whole-card wagering in Kentucky.

The insurance, taxes & license fees decrease of $203,000 was achieved by lower insurance costs in both Kentucky and Indiana.

Derby expansion area expenses increased in relation to increased space sold Derby weekend. Other Meeting Expenses rose $217,000 due primarily to increases in meet related printing expenses.

CHURCHILL DOWNS INCORPORATED

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

Following is a summary of Operating Expenses:

OPERATING EXPENSE SUMMARY

| | Six Months Ended June 30 1997 | % of Net Operating Expenses | Six Months Ended June 30 1996 | % of Net Operating Expenses | 1997 VS. 1996 $ Change | % Change |
|---|---|---|---|---|---|---|
| Purses: | | | | | | |
| On-track | $7,267,307 | 14% | $7,374,473 | 16% | ($107,166) | -1% |
| Intertrack-Host | 2,078,509 | 4 | 2,262,832 | 5 | (184,323) | -8 |
| Simulcast- Receiving | 6,269,524 | 12 | 5,554,331 | 12 | 715,193 | 13 |
| Simulcast-Host | 4,594,141 | 9 | 4,151,239 | 9 | 442,902 | 11 |
| Riverboat | 2,863,606 | 6 | 263,838 | - | 2,599,768 | 985 |
| | $23,073,087 | 45% | $19,606,713 | 42% | $3,466,374 | 18% |
| Wages and Contract Labor | 9,798,634 | 19 | 8,909,004 | 19 | 889,630 | 10 |
| Advertising, Marketing & Publicity | 2,689,438 | 5 | 2,083,656 | 4 | 605,782 | 29 |
| Racing Relations & Services | 1,068,113 | 2 | 1,035,281 | 2 | 32,832 | 3 |
| Totalisator Expense | 789,877 | 2 | 770,321 | 2 | 19,556 | 3 |
| Simulcast Host Fee | 3,919,550 | 8 | 3,822,315 | 8 | 97,235 | 3 |
| Audio/Video & Signal Distribution Expense | 1,088,597 | 2 | 819,133 | 2 | 269,464 | 33 |
| Program Expense | 1,251,719 | 2 | 1,271,430 | 3 | (19,711) | -2 |
| Depreciation & Amortization | 2,248,616 | 4 | 2,291,564 | 5 | (42,948) | -2 |
| Insurance, Taxes & License Fees | 1,269,905 | 2 | 1,473,076 | 3 | (203,171) | -14 |
| Maintenance | 1,075,505 | 2 | 977,415 | 2 | 98,090 | 10 |
| Utilities | 1,214,189 | 2 | 1,263,477 | 3 | (49,288) | -4 |
| Derby Expansion Area | 592,658 | 1 | 415,915 | 1 | 176,743 | 42 |
| Facility/Land Rent | 397,958 | 1 | 419,641 | 1 | (21,683) | -5 |
| Other meeting expense | 1,508,280 | 3 | 1,291,386 | 3 | 216,894 | 17 |
| | $51,986,126 | 100% | $46,450,327 | 100% | $5,535,799 | 12% |

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

Selling, general and administrative expenses increased by $547,000 during the six month period ended June 30, 1997, which represents only a slight increase as a percentage of revenues from 5.8% to 5.9%.

The interest income increase of $102,000 represents the additional earnings generated by the Company from its short-term cash investments. Miscellaneous income increased by $117,000 primarily as a result of a dividend payment received on annuity contracts related to a terminated pension plan.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 1997 TO THREE MONTHS ENDED JUNE 30, 1996

Net earnings for the three months ended June 30, 1997 increased by approximately $890,000 compared to the same three months last year as a result of an increase in the Company's net revenues offset partially by lower profit margins associated with simulcasting revenues. Additional interest income also contributed to the increase.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 1997 TO THREE MONTHS ENDED MARCH 31, 1997

The increase in net earnings for the three months ended June 30, 1997 from the net loss for the three months ended March 31, 1997 is primarily the result of live racing income generated at Churchill Downs during the Kentucky Derby and the Kentucky Oaks weekend and the rest of the 1997 Spring meet. Live racing in Kentucky begins in the second quarter during which the Company earns a substantial portion of it net earnings.

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

SIGNIFICANT CHANGES IN THE BALANCE SHEET DECEMBER 31, 1996 TO JUNE 30, 1997

The cash and cash equivalent balances at June 30, 1997 were $7.9 million higher than December 31, 1996 due to the cash generated during 47 live race days at Churchill Downs, principally the Kentucky Derby and Oaks weekend. Cash and cash equivalent balances during May and June are historically at the highest levels of the year.

Accounts receivable at June 30, 1997 were $7.3 million higher than December 31, 1996 due primarily to interstate and intrastate simulcasting settlements relating to the 1997 Spring race meet.

Plant and equipment increased by $2.8 million due to the construction of a new on-site simulcast facility as well as routine capital spending throughout the Company. This was offset by approximately $2 million in depreciation expense.

Accounts payable at June 30, 1997 were $5.0 million higher than December 31, 1996 as a result of simulcast settlements due other racetracks and additional payables relating to the Company's 1997 Spring Meet including horsemen's payable balances. Live-meet payable balances for the 1996 Fall Meet had substantially been paid prior to December 31, 1996.

Accrued expenses increased by $2.0 million at June 30, 1997 as a result of expenses generated during the 1997 Spring Meet.

Dividends payable decreased by $2.4 million at June 30, 1997 due to the payment of dividends (declared in 1996) in the first quarter of 1997.

Income taxes payable increased by $4.3 million at June 30, 1997 representing the estimated income tax expense attributed to the income generated in the second quarter of 1997.

Deferred revenue was $5.4 million lower at June 30, 1997 due to the significant amount of admission and seat revenue that was received in advance at December 31 and recognized as income in May 1997 for the Kentucky Derby and Kentucky Oaks.

Outstanding mutuel tickets increased by $1.5 million at June 30, 1997 as a result of unclaimed mutuel tickets relating to the 1997 Spring Meet.

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

SIGNIFICANT CHANGES IN THE BALANCE SHEET JUNE 30, 1996 TO JUNE 30, 1997

Cash and cash equivalents increased $2.1 million in 1997 over 1996 based upon the increased earnings of the Company.

The accounts receivable increase of $6.9 million includes an increase in the Indiana riverboat admissions tax receivable of $3.4 million and an increase in simulcast settlement receivables from other racetracks.

Plant and equipment increased by approximately $4 million due to the construction of a new on-site simulcast facility as well as routine capital spending throughout the Company during the past twelve months. Plant and equipment additions were offset by approximately $4 million in depreciation expense.

Accounts payable and accrued expenses increased $4.4 million at June 30, 1997 due primarily to the timing of payments of live meet-related expenses and horsemen's payable balances.

LIQUIDITY AND CAPITAL RESOURCES

The working capital surplus for the six months ended June 30, 1997 increased by approximately $4.9 million compared to June 30, 1996 as shown below:

| | JUNE 30 | |
|---|---|---|
| | 1997 | 1996 |
| Working capital surplus (deficiency) | $ 959,696 | $( 3,989,701) |
| Working capital ratio | 1.03 to 1 | .83 to 1 |

The increase in the surplus reflects the improved liquidity of the Company consistent with its continually improving financial performance.

Cash flows provided by operations were $13,306,000 for the six months ended June 30, 1997 compared to $17,213,000 for the six months ended June 30, 1996. The decrease of $3,908,000 is primarily the result of increased short-term accounts receivable. Management believes cash flows from operations during 1997 will be substantially in excess of the Company's disbursements for the year.

The Company has a $20,000,000 unsecured line-of-credit available with $20 million available at June 30, 1997 to meet working capital and other short-term requirements. Management believes that the Company has the ability to obtain additional long-term financing should the need arise.

RECENT ACCOUNTING DEVELOPMENTS

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128). SFAS 128 is designed to improve the EPS information provided in financial statements by simplifying the existing computational guidelines. SFAS 128 is effective for financial statements issued for periods ending after December 15, 1997. The Company does not expect adoption of this standard will have a material impact on its future or previously reported earnings per share.

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in a full set of general purpose financial statements. SFAS 130 is effective for financial statements issued for periods ending after December 15, 1997. The Company does not expect adoption of this standard will have a material impact on its financial statements.

SUBSEQUENT EVENT

In July 1997, BC Racing Group, LLC (BC), of which the Company is a 24% owner, purchased Dueling Grounds racecourse for $11 million at a Federal Bankruptcy Court sale after having purchased underlying mortgage notes to the property from the mortgagee at a discount. Located in Franklin, Kentucky, just north of Nashville, Tennessee, Dueling Grounds opened in 1991, conducting short race meets and year-round simulcasting. The Company has one seat on the four-person Management Committee of BC. The Company will account for its investment in BC of $2,187,500 under the equity method of accounting.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

## PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The registrant's 1997 Annual Meeting of Shareholders was held on June 19, 1997. Proxies were solicited by the registrant's board of directors pursuant to Regulation 14 under the Securities Exchange Act of 1934. There was no solicitation in opposition to the board's nominees as listed in the proxy statement, and all nominees were elected by vote of the shareholders. Voting results for each nominee were as follows:

| | VOTES FOR | VOTES WITHHELD |
|---|---|---|
| DIRECTORS: | | |
| William S. Farish | 2,570,163 | 11,659 |
| G. Watts Humphrey, Jr. | 2,570,271 | 11,551 |
| Arthur B. Modell | 2,229,842 | 351,980 |
| Dennis D. Swanson | 2,565,965 | 15,857 |

A proposal (Proposal No. 2) to approve amending Churchill Downs' Articles of Incorporation to increase the percentage of shareholders required to call a special meeting of the Company's shareholders was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 1,782,022 shares were voted in favor of the proposal; 437,753 were voted against; and 10,547 abstained.

A proposal (Proposal No. 3) to approve the minutes of the 1996 Annual Meeting of Shareholders was approved by a vote of the majority of the shares of the registrant's common stock represented at the meeting: 2,550,994 shares were voted in favor of the proposal; 19,568 were voted against; and 10,260 abstained.

The total number of shares of common stock outstanding as of April 18, 1997, the record date of the Annual Meeting of Shareholder, was 3,654,264.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

A. See exhibit index.

B. During the quarter ending June 30, 1997, no Form 8-Ks were filed by the Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

CHURCHILL DOWNS INCORPORATED

August 13, 1997

\S\THOMAS H. MEEKER

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Thomas H. Meeker
President and Chief Executive Officer

August 13, 1997

\S\ ROBERT L. DECKER

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Robert L. Decker
Senior Vice President, Finance
(Chief Financial Officer)

August 13, 1997

\S\VICKI L. BAUMGARDNER

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Vicki L. Baumgardner, Vice President
and Treasurer
(Principal Accounting Officer)

EXHIBIT INDEX

| NUMBERS | DESCRIPTION | BY REFERENCE TO |
|---|---|---|
| 2 | Restated Bylaws of Churchill Downs Incorporated | Page 24-35 |

RESTATED BYLAWS OF

CHURCHILL DOWNS INCORPORATED

ARTICLE I

OFFICE AND SEAL

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

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

ARTICLE II

STOCKHOLDERS MEETINGS AND RECORD DATES

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

SECTION 2. SPECIAL MEETINGS. Special meetings of the stockholders may be called by the President, the Chairman of the Board or by holders of not less than 33-1/3% of all the 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 thirteen (13) members but the number may be increased or decreased by amendment of this Bylaw. The Directors shall be divided into three classes, consisting of four (4) Class I Directors, five (5) Class II Directors and four (4) Class III Directors. At the 1995 annual meeting of shareholders, one (1) Class I director shall be elected for a term of two (2) years, five (5) Class II directors shall be elected for a term of three (3) years, and one (1) Class III director shall be elected for a term of one (1) year. Thereafter, each director shall hold office for a term of three (3) years (or in the case of the Class I director elected in 1995, a term of two (2) years; or in the case of the Class III director elected in 1995, a term of one (1) years) or until his successor shall have been elected and qualifies for the office, whichever period is longer. Except for any individual who is serving as Chairman of the Board of Directors at the time of nomination of directors, a person shall not be qualified for election as a Director unless he shall be less than seventy-two (72) years of age on the date of election. Each Director other than the Chairman of the Board of Directors shall become a Director Emeritus upon expiration of his current term following the date the Director is no longer qualified for election as a Director due to age. Directors Emeritus may attend all regular and special meetings of the Board of Directors and shall serve in an advisory capacity without a vote in Board actions.

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

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

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

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

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

SECTION 8. VACANCIES. Any vacancy occurring in the Board of

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

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

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

## ARTICLE IV

## COMMITTEES OF THE BOARD

SECTION 1. COMMITTEES. The Board of Directors shall have authority to establish such committees as it may consider necessary or convenient for the conduct of its business. All committees so established shall keep minutes of every meeting thereof and such minutes shall be submitted at the next regular meeting of the Board of Directors at which a quorum is present, and any action taken by the Board with respect thereto shall be entered in the minutes of the Board. Each committee so established shall elect a Chairman of the committee.

SECTION 2. THE EXECUTIVE COMMITTEE. The Board of Directors shall appoint and establish an Executive Committee composed of the Chairman of the Board and up to six (6) other 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 the Chairman of the Board and up to four (4) 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 the Chairman of the Board and up to four (4) Directors who shall be appointed by the Board annually. Each member of the Compensation Committee shall be a director who is not, during the one year prior to service or during such service, granted or awarded equity securities pursuant to any compensation plan of the Company. It shall be the duty of the Compensation Committee to administer the Corporation's Supplemental Benefit Plan, the Amended and Restated Incentive Compensation Plan (1993), the 1993 Stock Option 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 salaries paid to all executive officers of the Corporation and make all decisions relating to executive compensation after considering the recommendations of the CEO (on all but CEO compensation) 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 Corporation 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 the Chairman of the Board and 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 of 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.

(Replace this text with legend, if applicable)

1
U.S. Dollars

6-MOS
DEC-31-1997
JAN-01-1997
JUN-30-1997
1
16,156,852
0
12,472,948
115,621
0
29,328,116
102,842,179
39,195,894
96,616,380
28,368,420
0
0
0
3,493,042
55,224,858
96,616,380
74,058,499
74,058,499
51,986,126
56,378,253
(395,484)
0
148,710
17,927,020
6,990,000
10,937,020
0
0
0
10,937,020
$2.99
$2.99