CDI employees starting at the top, from left to right: Sandi Ho, Tram Vo, Talice Berry, Irene Rodriguez, Patti Boggs, Erin Moen, Angela Manalansan, Mark Fritsche, Shelley Robinson, Princess Van Sickle; all of Hollywood Park's accounting department – Mike Kohan, general manager at the Merrillville Sports Spectrum – Freddy Lee Smith, Calder security – Bruce Kincaid, backside maintenance at Churchill Downs – Yolanda Buford, human resources manager; Scott Graff, controller; Vicki Baumgardner, vice president, finance, and treasurer; all of Churchill Downs – Dannette Brennan-Smith, Hollywood Park human resources.

Letter to our Stockholders

President and Chief Executive Thomas H. Meeker and Chairman William S. Farish

1999 was the year in which our planning and our commitment to excellence resulted in outstanding progress for Churchill Downs Incorporated. Aided by strategic acquisitions, we achieved record financial results, we reinforced our leadership in the racing industry, and we continued our development of a comprehensive simulcast product. These accomplishments underscore the value of our four-prong business strategy, which continues to guide us as we embark on an era in our industry that will be defined by marketing innovations and technological advances.

With progress comes change. Two years ago, our operations were centered in Indiana and Kentucky. We now have five racetracks in four states, including California and Florida. The acquisitions of Calder Race Course and Hollywood Park more than tripled the size of our Company's assets. In 1997, we had a staff of 325 full-time employees; now we employ 1,000 people full time. To support this growth, the integration of our new properties and any future expansion plans, the Company has built a strong managerial infrastructure, and we are dedicating considerable energies to develop cohesiveness in our practices, which allows us to share resources effectively.

This dynamic year is reflected in our impressive 1999 financial results. Net revenues reached new levels with $258.4 million in 1999, an increase of 180 percent from five years ago. We achieved our seventh consecutive year of record earnings with net income reaching $15 million and diluted earnings per share of $1.72 on 16 percent more shares outstanding. We raised net proceeds of $62.1 million in additional equity in July 1999 through a successful stock offering that initiated analyst coverage for our stock and broadened our ownership profile. We also reduced the seasonality in our results, notably reporting sound profits in both the third and fourth quarters, which in the past were not strong periods for our Company due to the timing of our race meets.

This expansion has been accompanied by a significant change in our capital structure. We are committed to maintaining a strong balance sheet that affords flexible access to capital. During 1999, we more than doubled our credit facility to $250 million, on which our borrowings totaled $178 million at year's end. Our credit ratios remain strong at this level of debt, and although this position does add some uncertainty to earnings from fluctuations in short-term interest rates, we have taken steps to minimize the impact of any such changes. We also will use the proceeds from our sales of the Kentucky Horse Center and a 26 percent interest in Hoosier Park at Anderson to reduce our debt.

Against the backdrop of our strong results for 1999, we have been disappointed with the trading price of our stock since the offering. In contrast, we have been pleased that our average daily trading volume has increased, offering shareholders considerably more liquidity in their holdings. Many factors drive investor expectations, but our managerial focus must be on maximizing our shareholders' return in the long term.

We presented our four-prong business strategy to you in 1993, and six years later, we want to share with you the progress we have made. We are proud of the way our management team and employees have embraced our strategy as a roadmap to realizing our Company's exciting potential. Our record demonstrates how well our people have accepted new responsibilities and maximized their individual talents. On behalf of our entire team, we look forward to the promise of a new century, and we are confident that 2000 will be a year that extends our well-established record of success.

Thomas H. Meeker
President and Chief Executive Officer

William S. Farish
Chairman of the Board

Churchill Downs
INCORPORATED

Churchill Downs

Sports Spectrum
A Churchill Downs OTB

Our Branding Initiative

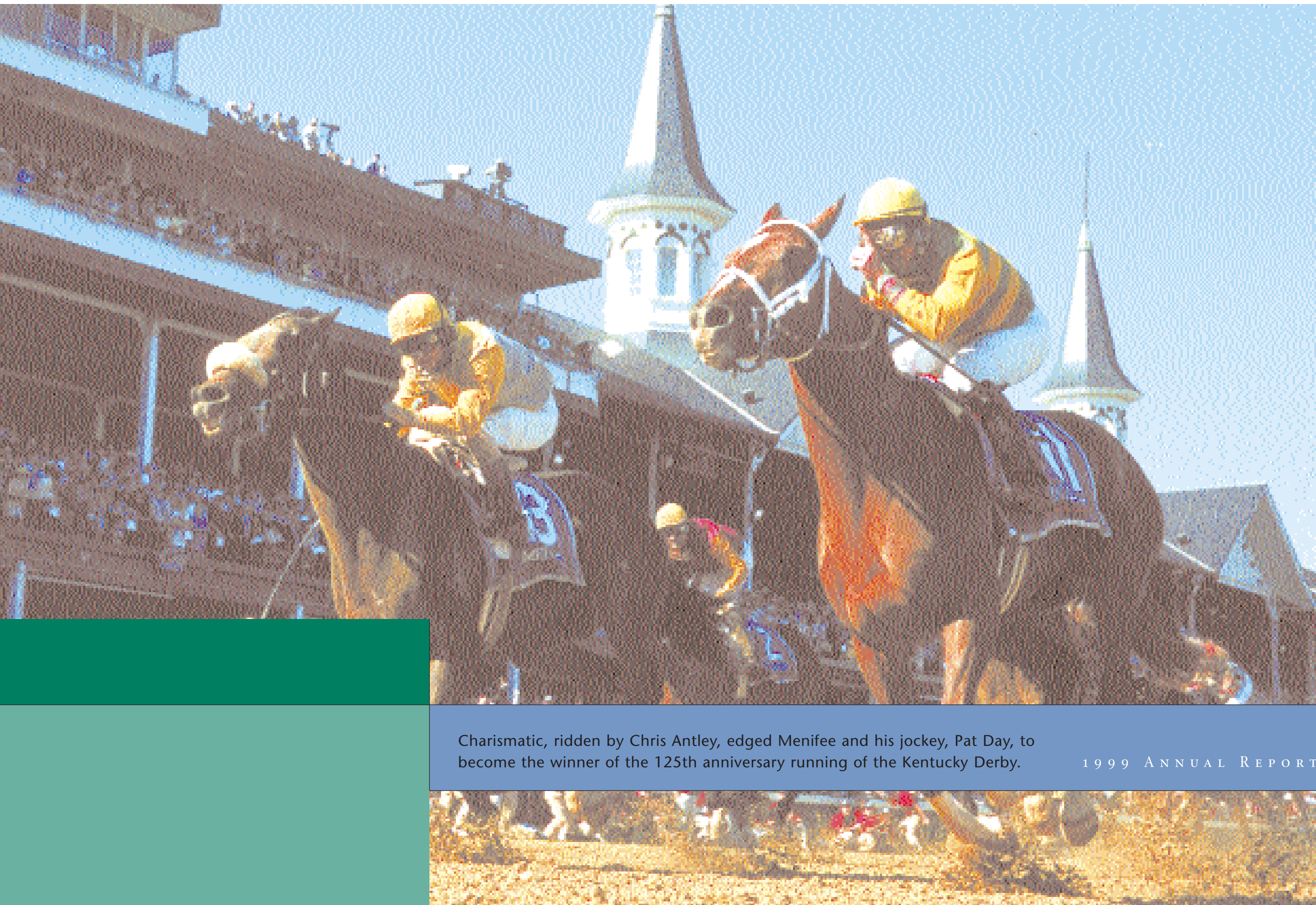
In the past, we have talked about a branding initiative that would leverage the equity we have in the Churchill Downs name and combine the resources we have through all of our operations to build the preferred brand in the live racing and simulcast markets. This initiative is now underway.

The first step was the launch of a new logo for all of our products and facilities, including the corporate office. The new mark is an abstract depiction of our world-famous Twin Spires and was designed to allow each of our racetracks to retain its own identity.

However, the concept of branding is more than just a new logo. It is a comprehensive initiative to elevate the expectation of our customers and to deliver on that expectation. By implementing unified procedures, we will fully integrate all of our operations under the Churchill Downs brand and create a promise of quality among our customers. Our intent is for racing enthusiasts to view the Twin Spires with the same level of recognition and comfort that they associate with the most successful consumer brands.

One of the first products we plan to introduce under the new brand is the Churchill Downs Simulcast Network, or CDSN. We will market the signals from all of our racetracks under the new mark. The network will be a customer-driven product for race fans with state-of-the-art, patron-friendly graphics. CDSN.net will be a companion product on the Internet, providing real-time handicapping information on our races. Bettors crave the most accurate and current information available. By using technology to capture and offer that information to bettors through CDSN.net, we will, in turn, drive wagering on our racing products. Both CDSN and CDSN.net will be introduced in phases beginning in the spring of 2000.

Andy Skehan, senior vice president, sales and marketing; Patrick Troutman, director of simulcast operations; Cindy Cook, director of marketing; all of Churchill Downs Incorporated.



Charismatic, ridden by Chris Antley, edged Menifee and his jockey, Pat Day, to become the winner of the 125th anniversary running of the Kentucky Derby.

Churchill Downs
Louisville, Kentucky

Known as the home of the Kentucky Derby and CDI's flagship operation, the racetrack occupies 147 acres and features a 1-mile dirt track and a 7-furlong turf course. The racetrack conducts Thoroughbred racing during its Spring Meet and Fall Meet. Thoroughbred racing and the Kentucky Derby have been run continuously at Churchill Downs since 1875.

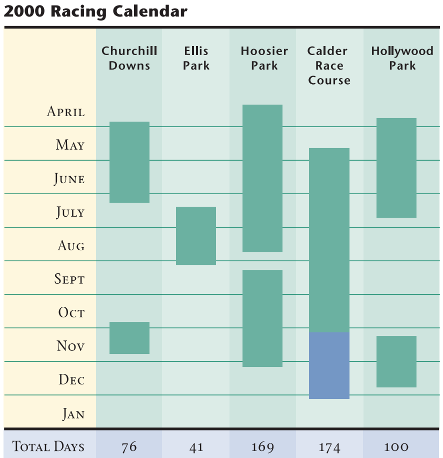
Behind the inspiring mark of the Twin Spires is the hard work of our management team and employees as they strive to identify the best policies, practices and services offered by each of our facilities. We must create a consistent, quality experience for our patrons whether they are visiting one of our racetracks or wagering on our races in an off-track betting facility or in their homes.

We intend to integrate programs in all areas of our business, including racing, customer service and community relations. We have already identified standards and innovations that we are convinced will improve the experience of our customers and instill confidence in our brand. They include:

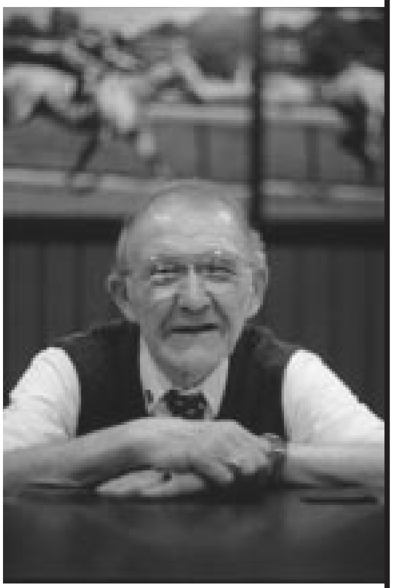
- *Cleanliness at all of our facilities;*
- *Coordinated stakes schedule, race days and post times;*
- *Consistent horsemen's relations practices;*
- *User-friendly Web sites that effectively share the racing experience; and*
- *Coordinated marketing efforts, using co-op advertising, cross promotions and national sponsorships.*

We are excited about these new opportunities to improve our business, and we are proud of the work our employees have put forth already to create the positive image and superior quality for their respective facilities. The branding program will build upon what we have already accomplished and heighten the awareness of our Company as North America's premier horse racing company.

2000 Racing Calendar



Customer Service



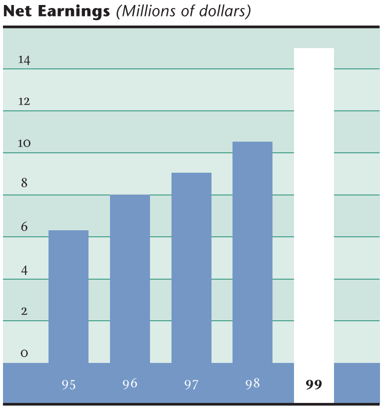
Cliff Fralick, mutuel clerk at Churchill Downs and Louisville Sports Spectrum.

We are committed to providing the highest level of customer service in all facets of our operations. We work hard at exceeding the expectations of the patrons who enter our facilities as well as the expectations of the many horsemen, vendors and others with whom we do business.

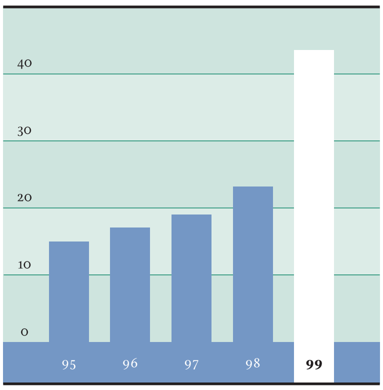
Our employees are among the best in the business when it comes to recognizing opportunities in which they can make loyal fans out of our guests. Their skills are honed through Churchill Downs University, a program we developed to provide seminars, classes and learning experiences to help our employees identify how they can better serve all of our customers. Our training staff was also instrumental in creating the first customer-service training model for the National Thoroughbred Racing Association and has conducted the program at several member racetracks.

Using training and ingenuity, we have elevated the level of service for our customers in countless ways. At Hollywood Park, bilingual customer service representatives help make our English- and Spanish-speaking guests welcome. Through Hoosier Park at Anderson's "Engage and Educate" program, employees have developed the "Top 10 List of Wagering Tips" to assist their patrons, many of whom are new to horse racing. At Ellis Park, a frequent-visitor program awards our most loyal guests with coupons and promotional items. Calder Race Course has developed a comprehensive employee-recognition program to reward our employees there for their service efforts, and Churchill Downs continues to offer the Twin Spires Club, a frequent-fan program, which enhances the live racing experience for our most loyal customers.

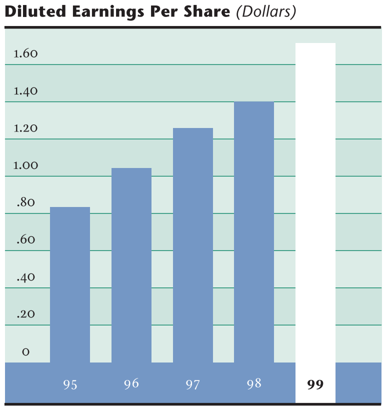
Net Earnings *(Millions of dollars)*



EBITDA: *(Millions of dollars)*



Diluted Earnings Per Share *(Dollars)*

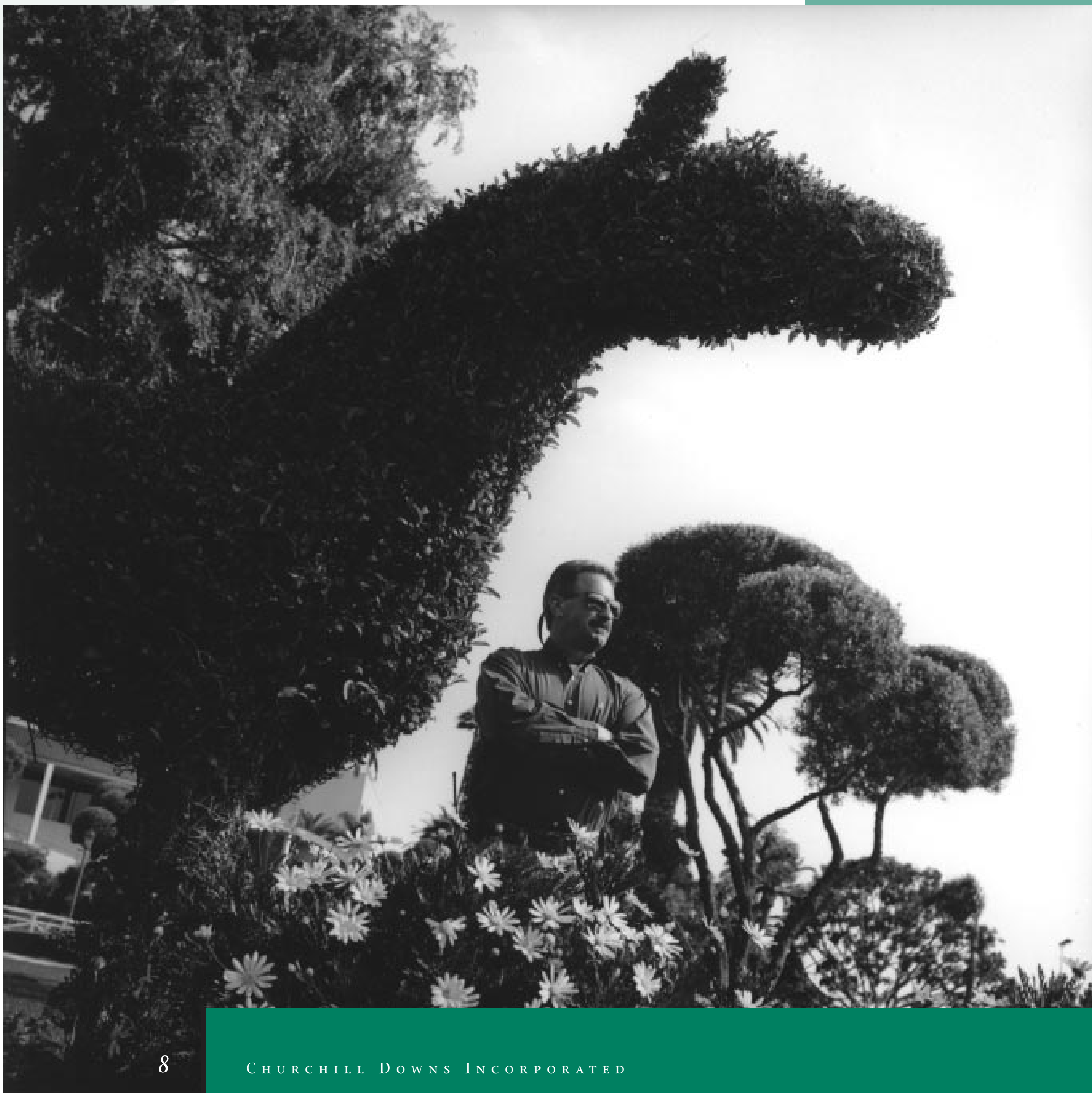


Our management philosophy, known as the Three C's, outlines three priorities that we focus on at each of our operations: customer service, capital improvement and community service. The Three C's are more than just a philosophy; they have become part of our culture.

Jim Gates, vice president of development; Jeanne Keats, vice president of human resources; Eric Bibb, vice president of information technology; Bob Decker, executive vice president and chief financial officer; Mike Miller, senior vice president of finance; all of Churchill Downs Incorporated.

Leslie Isaacs, greenhouse, and Kenny Glenn, housekeeping; both of Churchill Downs.

Clen Bounds, plant superintendent at Hollywood Park.

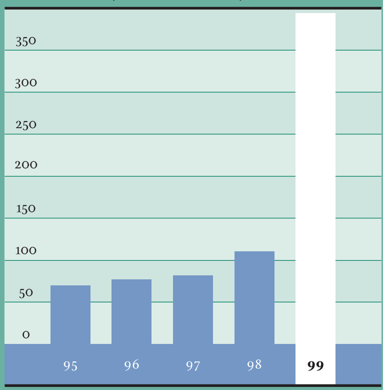


Hollywood Park
Inglewood, California

Hollywood Park
A Churchill Downs Company

Organized by Hollywood's elite during the 1930s, Hollywood Park is a stronghold in the West Coast Thoroughbred racing circuit. The racetrack encompasses 380 acres and features a 1 1/8-mile main track, a 1-mile turf course and a 1/2-mile training track. Hollywood Park also offers nighttime racing on Fridays during its Spring/Summer and Autumn race meets. CDI purchased Hollywood Park in September 1999.

Total Assets *(Millions of dollars)*



Capital Improvements

Investment in facilities is an important tool in our goal of exceeding customer expectations. We are dedicated to providing quality facilities for all our customers in a way that is fiscally responsible and provides a solid return on investment.

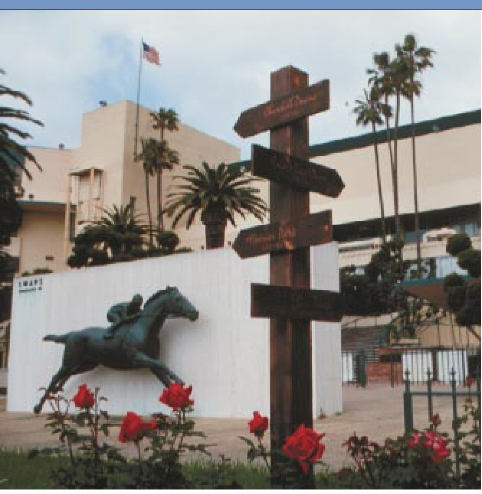
At Churchill Downs, we continue our long record of enhancing the facilities of our flagship operation. In early 1999, we completed the construction of a dormitory on the backside to provide horsemen with temporary housing while they are working at the racetrack. This year, we will complete our expansion of Gate 1, which includes a refurbished entryway that greets more than a third of our visitors each year and additional office space for our corporate employees.

The project also includes an expansion of the Kentucky Derby Museum, a non-profit organization that archives and shares the history of our sport's greatest race.

In the short time that we have owned Hollywood Park, we have committed resources to a project that includes refacing the main mutuel line in the clubhouse, extending and renovating the clubhouse level and expanding the food services in a popular area that overlooks the racetrack.

Such projects are common at all of our operations as we continue to update and improve our facilities to provide our patrons with a comfortable, safe and enjoyable racing experience.

Rick Baedeker, president of Hollywood Park, and Sandy Robbins, executive assistant.



Calder Race Course
Miami, Florida

Located next to Pro Player Stadium, home of baseball's Florida Marlins and the NFL's Miami Dolphins, Calder Race Course sits on 220 acres and offers a 1-mile dirt track, a 7-furlong turf track and a 5-furlong training track. Calder showcases Thoroughbred racing in two consecutive meets that usually begin in late May and end in early January. CDI purchased Calder in April 1999.

Calder Race Course
A Churchill Downs Company

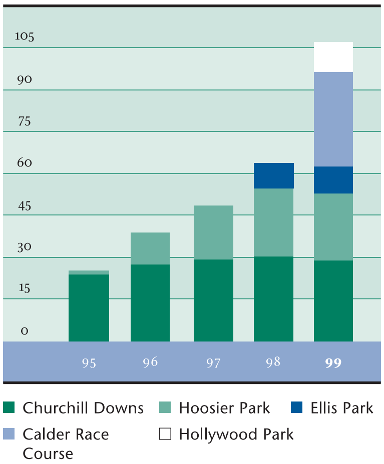
Landscaping department of Calder Race Course, left to right, front row: Mario Melo, Wilfredo Guedes and Luis Rodriguez. Back row: Benjamin Rodriguez, Ernesto Suarez, Luis Mentado, Luis Suarez and Felix Maqueira.

Community Relations

Community relations is an integral part of our corporate culture, and we strive to assume leadership and responsibility in every community where we do business. We are establishing strong community relations programs at each of our facilities. From benevolence to volunteerism to civic involvement, each of our facilities has become a part of the community that it serves.

Recognizing that such efforts are not just good for business but are a responsibility, we have expanded our efforts and subscribed to the "Neighbor of Choice" strategy. This program has been implemented and proven by many national companies. Using its blueprint for developing, implementing and institutionalizing a corporate-wide community relations strategy, we are establishing a social vision and sharing that outlook with our communities through our contributions of time and money and our relationships with other community partners.

Total Purses Paid* *(Millions of dollars)*



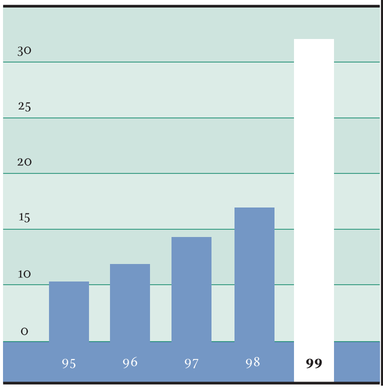
* Post-Acquisition

Our corporate giving is an essential part of this strategy. In 2000, our donations Company-wide will total approximately $1.6 million with a focus on educational programs, our local United Way chapters and industry-related organizations and projects, such as the Thoroughbred Retirement Foundation and The Disabled Jockeys' Fund.

The involvement of our employees is a fundamental element of our community relations efforts. Our employees give their own time and money on behalf of our Company to many worthy causes, and we have established programs internally that recognize their efforts. One innovation is the "Employees Helping Employees" program, which is designed to benefit employees directly by responding to the financial distress brought on by unforeseen developments and critical needs. The program will be funded by the sale of premium items and by Company matching funds. We believe it will provide support to our valued employees during a time when they need it most.

Key Industry Developments

Operating Income *(Millions of dollars)*



The athletes who bring the pageantry and excitement to our sport continued to deliver in 1999. Charismatic's Triple Crown bid gave us another exciting season of thrills. His astounding spirit brought many to tears when he suffered a career-ending injury in the final moments of the Belmont Stakes as his rider, Chris Antley, carefully tended to the colt's distress. Later in the year, our Hollywood Park fans witnessed racing history when jockey Laffit Pincay, Jr. surpassed Bill Shoemaker's record of 8,834 career wins.

Off track, the developments in our industry have continued to point to a resurgence in racing. Investment in our industry has reflected this renewed interest. Bloodstock sales continued their four-year record-setting trend with Thoroughbred sales alone totaling nearly $1 billion. This new high points to the health of the racing industry because investments in breeding are based largely on the success of live racing. According to The Jockey Club, total pari-mutuel handle in the United States reached $13.7 billion in 1999, an 18 percent increase since 1996 and the sixth consecutive annual gain.

Along with breeding investments and a consolidation trend, the sport of Thoroughbred racing has benefited from increased national awareness. In a poll conducted by ESPN Chilton Sports, horse racing enjoyed the greatest growth of popularity among all surveyed sports between March 1998 and March 2000. This heightened awareness of our sport comes at a time when the National Thoroughbred Racing Association (NTRA) continues to develop national marketing campaigns and promotional relationships that benefit the industry. One feat of the NTRA is the *NTRA Champions on Fox* racing broadcast series, which draws attention to horse racing outside of the Triple Crown races and Breeders' Cup Championship races.

Another sign of the renewed interest in our industry is the 2001-2005 television broadcast contract for the Triple Crown races. The agreement, which gives NBC domestic broadcast rights to the races, provides more opportunities for each of the three tracks to capitalize on the potential of the marketing and international broadcast rights. Additionally, Visa U.S.A. has committed to sponsoring the Triple Crown through 2005. Visa's involvement has injected a powerhouse marketer in our efforts to promote the Kentucky Derby, the Preakness and the Belmont Stakes.

All of these factors, combined with the opportunities that technology brings to the in-home and international markets, indicate strength and imbue us with confidence in our industry. We are poised to harness this potential.

Hoosier Park at Anderson

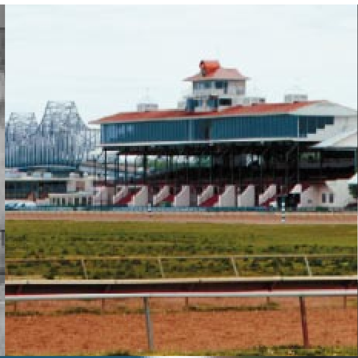
Anderson, Indiana

Hoosier Park at Anderson opened in September 1994 as Indiana's first pari-mutuel wagering facility. With a 7-furlong track, Hoosier Park offers Thoroughbred, Standardbred and Quarter Horse racing. Its Standardbred Meet usually runs from April through August, while its Thoroughbred Meet, which includes a few Quarter Horse programs, is usually conducted from September through November. CDI holds a majority interest in Hoosier Park.

Ron Fairholm, director of backside operations at Hoosier Park.

Hoosier Park
AT ANDERSON
A Churchill Downs Company

Stacey Meier, director of marketing services, and Kris Thompson, vice president of marketing, both of Hoosier Park.



Ellis Park
A Churchill Downs Company

Ellis Park
Henderson, Kentucky

Known as Kentucky's "summer track" for Thoroughbred racing, Ellis Park draws on the three-state market of Kentucky, Illinois and Indiana. The track rests on 232 acres on the Ohio River and features a 1 1/8-mile dirt course, Kentucky's largest, and a 1-mile turf course. Ellis Park's meet usually runs from early July through Labor Day. CDI purchased Ellis Park in April 1998.

Our Four-Prong Business Strategy

Paul Kuerzi, general manager of Ellis Park.

When we introduced our four-prong business strategy in 1993, the Internet had not yet emerged as a significant medium and the American economy was recovering from a recession. Both landscapes are dramatically different now, resulting in revolutionary changes in business. Our strategy, though, remains solid and current. After six years of thoughtful revisions, its essence remains intact and continues to guide our efforts:

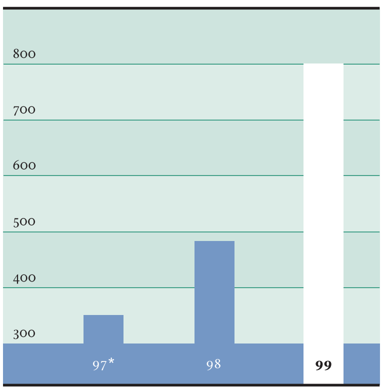
1. *Promote and enhance live racing, in particular, the Kentucky Derby;*
2. *Increase our share of the simulcast market;*
3. *Remain the leader in the consolidation and development of the Thoroughbred racing industry;*
4. *Promote the integration of alternative forms of gaming and entertainment into our operations.*

Promote And Enhance Live Racing

The equine and human athletes who create the spectacle and excitement that is horse racing are the cornerstone of our business. Their sport is our product, and our task is to present the best possible racing experience to our fans in the form of the most attractive wagering opportunities, the most fan-friendly facilities and the industry's best customer service.

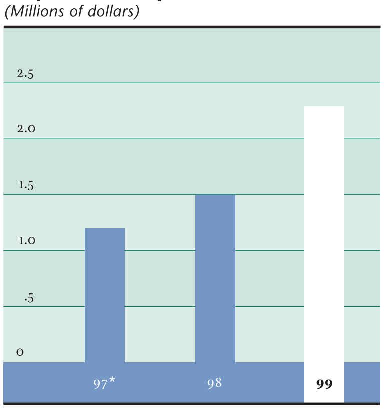
How the Strategy Works: Ellis Park

Interstate Simulcast Outlets



* Pre-Acquisition

Daily Simulcast Export Handle
(Millions of dollars)



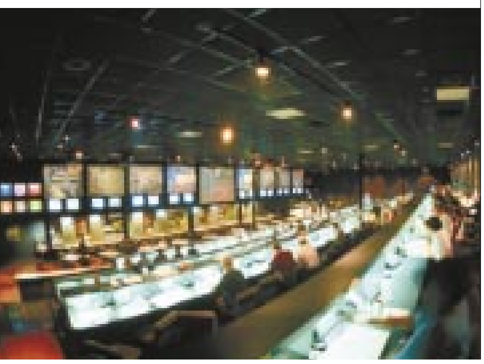
* Pre-Acquisition

By focusing on our core racing product, we have strengthened it. We successfully host racing's most popular events. In 1999, the Kentucky Oaks and the Kentucky Derby celebrated 125 consecutive runnings with outstanding results. The Kentucky Oaks, now the second most attended horse racing event in North America, attracted a record of 101,000 people to Churchill Downs. The Kentucky Derby attracted its second largest crowd in history with 151,000 fans, including Vice President Al Gore, present to watch Charismatic emerge as the champion against 31-1 odds. Total wagering for The Derby reached a record $57.3 million.

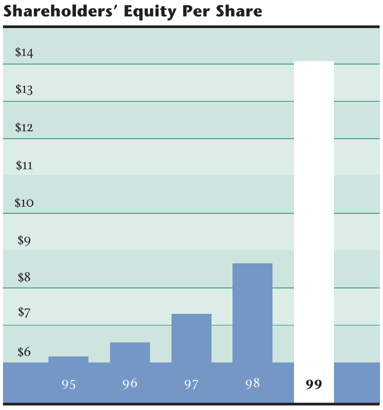
All the Triple Crown races will benefit from the new five-year domestic broadcast contract with NBC Sports, which will televise The Derby, the Preakness and the Belmont Stakes in 2001. As the official television network for the Breeders' Cup Championship, NBC is proven in its ability to promote its sports programming. The incremental sponsorship fees and separate sale of international broadcast rights will provide increased revenues to Churchill Downs and the other Triple Crown tracks.

While the Oaks and Derby remain important revenue-producing events for us, we have also benefited from the exposure and prestige of hosting the Breeders' Cup. We now own two racetracks that are regular sites for racing's championship event. Churchill Downs will host the event for a record fifth time on November 4, 2000, and Hollywood Park is a three-time host of the Breeders' Cup. We hope to attract the Breeders' Cup to Hollywood Park again in the near future.

In addition to hosting our sport's most visible events, we continue to build upon our successful live racing program. Among our five racetracks, we now offer a yearly sum of $107 million in purses and 85 graded stakes races. We have created a series of races among our racetracks and increased the average daily purses offered at each one. Our tracks' signature events posted encouraging attendance and handle numbers in 1999, a testimony to our strategy and the commitment of our employees to creating the most positive experience for our patrons when they visit our facilities.



Shareholders' Equity Per Share



Increase Share of the Simulcast Market

Simulcasting races has spawned new growth and changed the dynamics of our industry. The capability to capture the opportunities simulcasting creates will be vital to racing companies competing in the new century. The Company has been able to secure a strong presence in the Thoroughbred racing industry. Our acquisitions of Calder Race Course and Hollywood Park have been catalysts to our recent growth by adding live racing days in two major markets to our simulcast calendar. Our acquisitions have also led to substantial progress in our goal of building a comprehensive simulcast network. Starting in 2000, Churchill Downs Simulcast Network, or CDSN, will market signals from each of our racetracks under the Churchill Downs brand. An element of our Company-wide branding initiative, CDSN will distinguish our racing in the market place and forge strategic relationships with other racetracks that eventually will become integral components of the network. When CDSN is fully deployed, we believe it will broadcast the preferred products in the racing industry.

As we continue to expand our presence in the industry, we are also positioning our business for emerging opportunities. Various avenues now exist to enter the in-home and international wagering markets, and we expect technology will only make those avenues easier to navigate. Through CDSN, we are well-positioned to be the industry's leading content provider as these distribution platforms take shape.

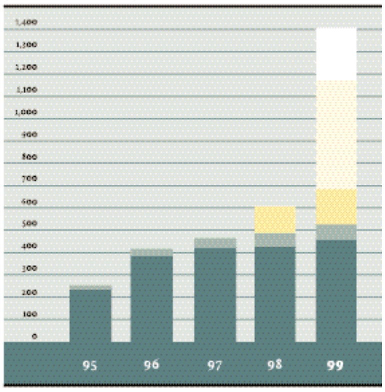
Remain The Leader in the Consolidation and Development of the Industry

Our Company has led the consolidation trend in our industry with the acquisition of three racetracks in 18 months. With the combined efforts of our 1,000 full-time employees, we have been able to successfully integrate these new properties. With that experience and the additional resources provided by our acquisitions, we are now in a strong position to consider acquisitions or business opportunities that meet our strategic goals.

Consolidation for most industries has been positive, offering increased goods and services and enhanced value for customers. Likewise, we believe that the consolidation process for racing will provide similar benefits while creating operational, promotional and financial benefits to our Company.

In addition to our racetracks, our portfolio of companies also includes various racing services companies that are helping to strengthen the industry and will be instrumental in the development of CDSN. One such company is Charlson Broadcast Technologies, LLC, a video services and graphics software company in which we acquired a majority interest in January 1999. Additionally in 1999, Churchill Downs Investment Company and Autotote Services, Inc. formed NASRIN Services, LLC, a telecommunications service provider for the pari-mutuel and simulcasting industries, which Autotote manages on a day-to-day basis. We have a minority interest in NASRIN Services as well as EquiSource, LLC, which provides purchasing services to our industry.

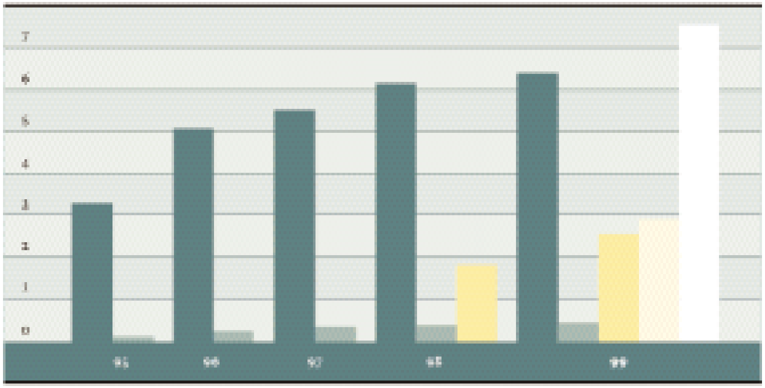
Total Handle For Simulcast Export*
(Millions of dollars)



■ Churchill Downs ■ Hoosier Park ■ Ellis Park
□ Calder Race Course □ Hollywood Park

* Post-Acquisition

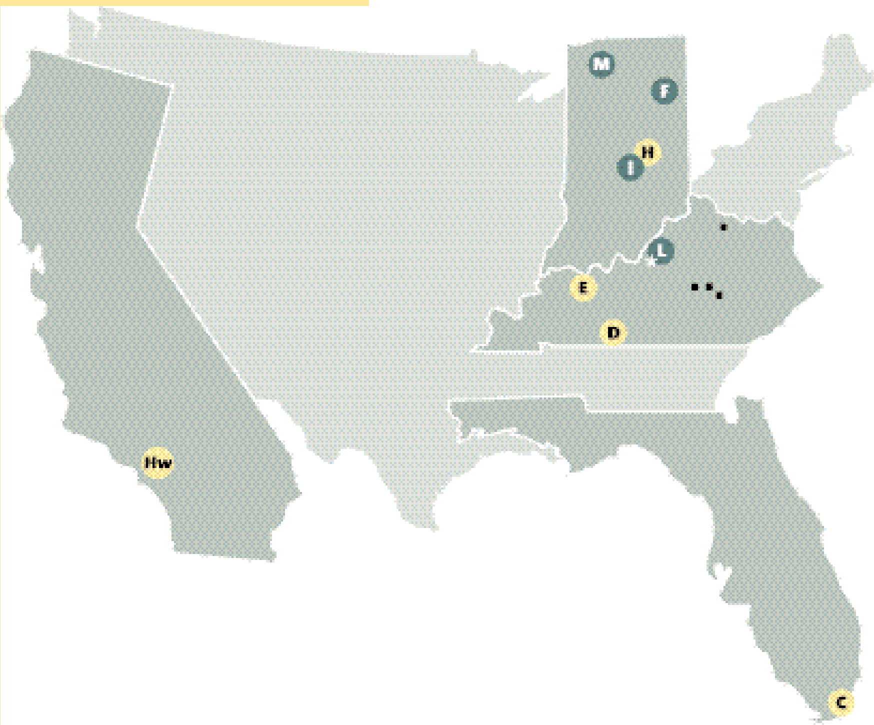
Average Daily Export by Track
(Millions of dollars)



■ Churchill Downs ■ Hoosier Park ■ Ellis Park □ Calder Race Course □ Hollywood Park

CDI Racing and Simulcast Facilities

★	Churchill Downs
Hw	Hollywood Park
H	Hoosier Park at Anderson
E	Ellis Park
C	Calder Race Course
L	Louisville Sports Spectrum
F	Fort Wayne Sports Spectrum
I	Indianapolis Sports Spectrum
M	Merrillville Sports Spectrum
D	Kentucky Downs (25% interest)
■	Kentucky Off-Track Betting Sites (50% interest)



Integrate Alternative Forms of Gaming and Entertainment Into Our Operations
We continue to promote the opportunity to initiate alternative gaming at our racetracks. We remain convinced that offering video lottery terminals at our Kentucky facilities can benefit our racing programs and horsemen through incremental revenues that will increase profits and purses. We have broadened this concept to include expanding the use of our racetracks and enhancing their capability to earn revenues when they are not racing or offering simulcast wagering.

Each prong of our strategy works with the others to create value for our Company. Live racing is the engine that drives the simulcast sales, which are further fueled by our acquisition strategy. Each prong also opens other avenues to grow our existing operations. One example is our branding initiative, which will efficiently market and generate awareness for our live racing product worldwide. As a part of that effort, we will standardize our cumulative best practices and roll out CDSN. By positioning ourselves as a leading content provider, we believe we will be poised for growth through both the in-home wagering and international markets.

When we introduced our business strategy, we believed we were capable of accomplishing its lofty goals, and we have made great strides toward that objective. We are gratified by the progress that we have realized. Our employees and our management team are energized and prepared for the work and the challenges that lie ahead.

SELECTED FINANCIAL DATA

(in thousands, except per share data)

	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995
OPERATIONS:					
Net revenues	$ 258,427	$ 147,300	$ 118,907	$ 107,859	$ 92,434
Operating income	32,513	17,143	14,405	12,315	10,305
Net earnings	14,976	10,518	9,148	8,072	6,203
Basic net earnings per share	1.74	1.41	1.25	1.08	0.82
Diluted net earnings per share	1.72	1.40	1.25	1.08	0.82
Dividends paid					
Annual per share	0.50	0.50	0.25	0.25	0.25
Special per share	—	—	0.25	0.08	—
AT PERIOD END:					
Total assets	$ 398,046	$ 114,651	$ 85,849	$ 80,729	$ 77,486
Working capital surplus (deficiency)	800	(7,791)	(8,032)	(10,789)	(10,434)
Long-term debt	181,450	13,665	2,713	2,953	6,421
Shareholders' equity	138,121	65,231	53,393	47,781	46,653
Shareholders' equity per share	14.02	8.67	7.30	6.54	6.17
Additions to plant and equipment, exclusive of business acquisitions	12,083	3,524	4,568	2,571	8,590

Earnings, dividends and shareholders' equity per share amounts have been retroactively adjusted for the 2-for-1 stock split with a record date of March 30, 1998.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General Information

Information set forth in this discussion and analysis contain various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Annual Report on Form 10-K are made pursuant to the Act. These statements represent our judgment concerning the future and are subject to risks and uncertainties that could cause our actual operating results and financial condition to differ materially. Forward-looking statements are typically identified by the use of terms such as "may," "will," "expect," "anticipate," "estimate," and similar words, although some forward-looking statements are expressed differently. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from our expectations include: the impact of 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 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.

We own and operate the Churchill Downs racetrack in Louisville, Kentucky, which has conducted Thoroughbred racing since 1875 and is internationally known as home of the Kentucky Derby. We also own and operate Hollywood Park Race Track, a Thoroughbred racetrack in Inglewood, California ("Hollywood Park"); Calder Race Course, a Thoroughbred racetrack in Miami, Florida, which owns racing licenses held by Calder Race Course, Inc. and Tropical Park, Inc. ("Calder Race Course"); Ellis Park Race Course, a Thoroughbred racetrack in Henderson, Kentucky ("Ellis Park"); and Kentucky Horse Center, a Thoroughbred training center in Lexington, Kentucky ("KHC"). We have entered into a definitive agreement with Keeneland Association, Inc. ("Keeneland") whereby Keeneland will purchase the assets of KHC for a cash payment of $5 million. The sale is subject to certain closing conditions, and closing is expected during March or April of 2000.

Additionally, 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 have entered into a definitive agreement with Centaur, Inc. ("Centaur") to sell a 26% interest in Hoosier Park, LP for a purchase price of $8.5 million. Upon closing, we will retain a 51% interest in Hoosier Park and continue to manage its day-to-day operations. Centaur, which already owned a portion of HPLP prior to the agreement, will hold a 39% minority interest in HPLP. The transaction is subject to certain closing conditions, including the approval of the Indiana Horse Racing Commission ("IHRC") and various regulatory agencies, and closing is expected during the second quarter of 2000. We also conduct simulcast wagering on horse racing at our off-track betting facilities ("OTBs") located in Louisville, Kentucky, and in Indianapolis, Merrillville and Fort Wayne, Indiana, as well as at our racetracks.

Management's Discussion and Analysis of Financial Condition And Results of Operations

Because of the seasonal nature of our business, 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 quarter of each year during which the Kentucky Derby and the Kentucky Oaks are run. The Kentucky Derby and the Kentucky Oaks are run on the first weekend in May.

Our primary source of revenue is commissions on pari-mutuel wagering at our racetracks and OTBs. Other sources of revenue include Indiana riverboat admissions subsidy revenue, simulcast fees, lease income, admissions and concessions revenue.

The Kentucky Derby and the Kentucky Oaks, both held at Churchill Downs, continue to be our premier racing events. The Kentucky Derby offers a minimum $1.0 million in purse money and the Kentucky Oaks offers a minimum $0.5 million in purse money. Calder Race Course is home to the Festival of the Sun, Florida's richest day in Thoroughbred racing, offering approximately $1.5 million in total purse money. Hollywood Park is home to the Sempra Energy Hollywood Gold Cup, which offers $1.0 million in purse money. Hollywood Park's Autumn Meet is highlighted by the annual $2.1 million Autumn Turf Festival, comprised of six graded stakes races. Other races that make us unique are the Indiana Derby for Thoroughbreds and the Dan Patch Invitational for Standardbreds held at Hoosier Park, as well as the Gardenia Stakes for older fillies and mares held at Ellis Park.

Churchill Downs hosted the Breeders' Cup Championship ("Breeders' Cup") in 1988, 1991, 1994 and 1998, and will host the event for a record fifth time on November 4, 2000. Hollywood Park has also hosted the Breeders' Cup in 1984, 1987 and 1997. The Breeders' Cup is sponsored by Breeders' Cup Limited, a tax-exempt organization chartered to promote Thoroughbred racing and breeding. The Breeders' Cup races, which feature $13.0 million in purses, are held annually for the purpose of determining Thoroughbred champions in eight different events. Racetracks across North America compete for the privilege of hosting the Breeders' Cup races each year. Although most of the income earned from this event is allocated to Breeders' Cup Limited, hosting the 1998 event had a positive impact on our 1998 results, and hosting the event in 2000 is expected to have a positive impact on our 2000 results.

Kentucky's racetracks, including Churchill Downs and Ellis Park, are subject to the licensing and regulation of the Kentucky Racing Commission ("KRC"). The KRC consists of 11 members appointed by the governor of Kentucky. Licenses to conduct live Thoroughbred race meets and to participate in simulcasting are approved annually by the KRC based upon applications submitted by the racetracks in Kentucky. Although to some extent Churchill Downs and Ellis Park compete with other racetracks in Kentucky for the award of racing dates, the KRC is required by state law to consider and seek to preserve each racetrack's usual and customary live racing dates. Generally, there is no substantial change from year to year in the racing dates awarded to each racetrack.

We received approval from the KRC to conduct two live Thoroughbred racing meets at Churchill Downs from April 29 through July 9, 2000 ("Spring Meet"), and from October 29 through November 25, 2000 ("Fall Meet"), for a total of 76 days, excluding the Breeders' Cup on November 4, 2000. Churchill Downs conducted live racing from April 24 through June 27, 1999, and from October 31 through November 27, 1999, for a total of 71 racing days compared to a total of 71 racing days in 1998. KRC approved a one week increase in Churchill Downs' Spring Meet during 2000, which is a reduction to Ellis Park's customary racing schedule.

The KRC also awarded Ellis Park approval to conduct live Thoroughbred racing from July 12 through September 4, 2000, for a total of 41 live racing days. Ellis Park conducted live racing from June 28 through September 6, 1999, for a total of 61 racing days compared to 61 racing days in 1998. The decrease of 20 live race dates for 2000 compared to 1999 is the result of reducing the live racing week from 6 days of live racing to 5 days of live racing and the movement of one week of live racing to Churchill Downs' Spring Meet. We expect the change in live race dates to better utilize the operations of both racetracks.

In California, licenses to conduct live Thoroughbred racing and to participate in simulcasting are approved by the California Horse Racing Board annually based upon applications submitted by California racetracks. Generally, there is no substantial change from year to year in the racing dates awarded to each racetrack. Hollywood Park, which was acquired on September 10, 1999, has been approved to conduct two live Thoroughbred race meets from April 28 through July 24, 2000 ("Spring/Summer Meet"), and from November 8 through December 24, 2000 ("Autumn Meet"), for a total of 100 days combined. Hollywood Park conducted 97 days of racing during 1999 compared to 97 days of racing during 1998.

In Florida, licenses to conduct live Thoroughbred racing and to participate in simulcasting are approved by the Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering ("DPW"). The DPW is responsible for overseeing the network of state offices located at every pari-mutuel wagering facility, as well as issuing the permits necessary to operate a pari-mutuel wagering facility. The DPW also approves annual licenses for Thoroughbred, Standardbred and Quarter Horse races. Calder Race Course, Inc. and Tropical Park, Inc., which were acquired April 23, 1999, hold licenses to conduct two consecutive live Thoroughbred race meets at Calder Race Course. Calder Race Course, Inc. has been approved for live racing from May 23 through November 2, 2000, and Tropical Park, Inc. was approved from November 3, 2000 through January 2, 2001, for a collective total of 174 days of live racing. In 1999, Calder Race Course conducted 169 days of racing, which included 2 days of racing in January 2000 compared to 173 days of racing during 1998, which included 2 days of racing in January 1999. During 1999, 1 day of approved live racing was lost as a result of inclement weather.

Tax laws in Florida currently discourage the three Miami-area racetracks in Florida from applying for licenses for race dates outside of their traditional racing season, which currently do not overlap. Effective July 1, 2001, a new tax structure will eliminate this deterrent. Accordingly, Calder Race Course may face direct competition from other Florida racetracks and may have the ability to increase live racing dates or lose live racing dates in the future.

In Indiana, licenses to conduct live Standardbred and Thoroughbred race meets, including Quarter Horse races, and to participate in simulcasting are approved annually by the Indiana Horse Racing Commission ("IHRC"), which consists of five members appointed by the governor of Indiana. Licenses are approved annually by the IHRC based upon applications submitted by Hoosier Park. Currently, Hoosier Park is the only facility in Indiana licensed to conduct pari-mutuel wagering on live Standardbred, Quarter Horse or Thoroughbred racing and to participate in simulcasting. The IHRC has approved Hoosier Park to conduct live Standardbred racing from April 6 through August 23, 2000, and live Thoroughbred racing from September 8 through December 4, 2000, for a combined total of 169 live racing dates in 2000. Hoosier Park conducted live racing from April 9, 1999 through December 5, 1999, for a combined total of 167 days of racing during 1999 compared to 153 total days of racing during 1998. Indiana law requires us to conduct live racing for at least 120 days each year in order to simulcast races.

Management's Discussion and Analysis of Financial Condition And Results of Operations

In December 1999, the IHRC accepted an application from a group of investors who seek to build a Standardbred racetrack in Lawrence, Indiana. The application is now in the review process. It is our belief that the Indianapolis market cannot support two racetracks, and Hoosier Park is compiling market data to respond to the proposal. The addition of a second racetrack in Indiana could potentially impact Hoosier Park's share of the riverboat admissions revenue, create an increase in competition in the market and reduce the quality of racing. A reduction in Hoosier Park's live racing dates as a result of a second racetrack could also result in an adverse impact on long-term profitability of the facility.

The total number of days on which each racetrack conducts live racing fluctuates annually according to the calender year. A substantial change in the allocation of live racing days at Churchill Downs, Hollywood Park, Calder Race Course, Hoosier Park or Ellis Park could adversely impact our operations and earnings in future years.

As of December 31, 1999, we employed approximately 1,030 full-time employees Company-wide. Due to the seasonal nature of our live racing business, the number of seasonal and part-time persons employed will vary throughout the year. During 1999, peak employment occurred during Kentucky Derby week when we employed as many as 3,300 persons Company-wide. During 1999, average full-time and seasonal employment per pay period was approximately 950 individuals Company-wide.

We generally do not directly compete with other racetracks or OTBs for local patrons due to geographic separation of facilities or differences in seasonal timing of meets. Calder Race Course, for example, is in close proximity to two other racetracks, but the tracks currently do not directly compete with each other because they offer live races and simulcasting during different times of the year. However, we compete with other sports, entertainment and gaming options, including riverboat, cruise ship and land-based casinos and lotteries, for patrons for both live racing and simulcasting. We attempt to attract patrons by providing high quality racing products in attractive entertainment facilities with fairly priced, appealing concession services.

The development of riverboat gaming facilities began in Indiana pursuant to authorizing legislation passed by the state of Indiana in 1993. Illinois had previously authorized riverboat gaming. There are currently five riverboat casinos operating on the Ohio River along Kentucky's border, including two in the southeastern Indiana cities of Lawrenceburg and Rising Sun, one in southwestern Indiana in Evansville and one in Metropolis, Illinois. The fifth riverboat casino, licensed to RDI/Caesars, opened in November 1998 in Harrison County, Indiana, 10 miles from Louisville. We experienced some decreases in attendance and pari-mutuel wagering at the Churchill Downs Sports Spectrum ("Louisville Sports Spectrum") during 1999 as compared to 1998. However, we experienced an increase in pari-mutuel wagering on Churchill Downs races, including export simulcasting, during the same period. It is impossible to accurately determine the extent of the riverboat's impact on our business at these facilities. Other factors, such as unfavorable weather conditions, may also have had an impact.

The Indiana Gaming Commission voted in September 1998 to grant a license to open a fifth Indiana riverboat along the Ohio River in Switzerland County, about 70 miles from Louisville. The license holder, Pinnacle Entertainment, Inc., formerly Hollywood Park, Inc., plans to build a riverboat casino, hotel and resort complex, which is projected to open in the third quarter of 2000.

In addition to those riverboats operating along the Ohio River, five riverboat casinos have opened along the Indiana shore of Lake Michigan near our Indiana Sports Spectrum in Merrillville, Indiana. The opening of these Lake Michigan riverboats adversely impacted our pari-mutuel wagering activities at the Merrillville facility. Given its proximity to Chicago, the Merrillville Indiana Sports Spectrum also faces competition from OTBs and riverboat casinos near Chicago. We also compete with cruise ship casinos in Florida and state lotteries.

Additionally, several Native American tribes in Florida have expressed interest in opening casinos in southern Florida, which could compete with Calder Race Course. Also, the state of Michigan has approved a proposal by the Pokagon Band of the Potawatomi Indian Tribe to develop a casino in New Buffalo, Michigan, which is approximately 45 miles from our Merrillville facility. The development of this casino may negatively impact pari-mutuel activities at Hoosier Park's Indiana facilities.

In Kentucky, a Breeders' Cup incentive bill is being considered by the Kentucky General Assembly. This proposed legislation seeks to attract the Breeders' Cup to Kentucky more frequently by eliminating the excise tax on pari-mutuel wagering for live races on Breeders' Cup Day at any Kentucky racetrack hosting the event. It remains uncertain whether this proposal will be enacted.

The potential integration of alternative gaming products at our racetrack facilities is one of our four core business strategies developed to position us to compete in this changing environment. We have successfully grown our live racing product by implementing our other core business strategies by strengthening our flagship operations, increasing our share of the interstate simulcast market and geographically expanding our racing operations in Kentucky, Indiana, Florida and California. Alternative gaming in the form of video lottery terminals may enable us to more effectively compete with Indiana riverboat casinos and provide new revenue for purse money and capital investment. We continue to seek industry consensus for a plan to allow video lottery terminals at our racetrack facilities in Kentucky. Currently, we are working with members of the Kentucky horse industry to establish a consensus for a plan to operate video lottery terminals exclusively at Kentucky's racetracks.

The horse industry in Indiana presently receives $.65 per $3 admission to Indiana riverboats to compensate for the effect of riverboat competition. By IHRC rule we are required to allocate 70% of such revenue directly for purse expenses, breed development and reimbursement of approved marketing costs. The balance, or 30%, is received by Hoosier Park as the only horse racetrack currently operating in Indiana. Riverboat admissions revenue from our Indiana operations increased $2.0 million for the year ended December 31, 1999 compared to 1998, as a result of the expansion of existing riverboats. The net increase in riverboat admissions revenue, after required purse and marketing expense increases of approximately $1.2 million, is $0.8 million.

In November 1999, the Company and the IHRC agreed to a $6.8 million ceiling on Hoosier Park's share of the subsidy. The ceiling represents a 9% decrease from the $7.4 million revenues Hoosier Park earned for 1999. A more significant change in Hoosier Park's share of the subsidy, as a result of a possible second track approved in Indiana, would impact funding for operating expenditures, potentially reducing the number of race dates at Hoosier Park and, in all likelihood, re-emphasize the need for the integration of alternative gaming products at the Hoosier Park racetrack in order for it to remain a profitable enterprise.

Technological innovations have opened the distribution channels for live racing products to include in-home wagering. Television Games Network ("TVG"), a subsidiary of TV Guide, Inc., offers high quality live racing video signals in conjunction with its interactive television wagering system. We have entered into agreements to broadcast our racetrack simulcast products as part of TVG's programming content. This new network is anticipated to eventually offer 24-hour-a-day programming throughout the United States that will be primarily devoted to developing new fans for racing. In jurisdictions where lawful, in-home patrons of TVG can wager on our live races as well as other race signals. As the originator of the live racing signal, we will receive a simulcast fee on in-home wagers placed on our races.

Management's Discussion and Analysis of Financial Condition And Results of Operations

In June 1999, the U.S. Justice Department raised concerns whether interactive wagering conducted through TVG's wagering hub would be legal under existing federal gambling laws. In addition, certain state attorney generals have expressed concern over the legality of TVG's business. TVG related revenues are not material to our operations at this time.

Results of Operations

Pari-mutuel wagering information, including intercompany transactions, for our five live racing facilities and four separate OTBs, which are included in their respective racetracks, during the years ended December 31, 1999 and 1998 is as follows ($ in thousands):

	Churchill Downs Racetrack	Hollywood Park*	Calder Race Course*	Hoosier Park	Ellis Park*
Live racing:					
1999 handle	$ 125,258	$ 198,683	$ 183,439	$ 15,888	$ 19,790
1999 no. of days	71	97	169	167	61
1998 handle	$ 128,250	$ 199,338	$ 187,477	$ 16,092	$ 20,944
1998 no. of days	71	97	173	153	61
Export simulcasting					
1999 handle	$ 459,545	$ 730,479	$ 489,519	$ 68,994	$ 159,964
1999 no. of days	71	97	169	167	61
1998 handle	$ 421,200	$ 732,510	$ 456,860	$ 62,720	$ 116,735
1998 no. of days	70	97	173	153	61
Import simulcasting					
1999 handle	$ 121,160	$ 228,556	—	$ 139,379	$ 38,040
1999 no. of days	234	175	—	1,205	290
1998 handle	$ 138,443	$ 214,799	—	$ 133,770	$ 38,065
1998 no. of days	232	179	—	1,219	288
Totals					
1999 handle	$ 705,963	$ 1,157,718	$ 672,958	$ 224,261	$ 217,794
1998 handle	$ 687,893	$ 1,146,647	$ 644,337	$ 212,582	$ 175,744

** Pari-mutuel wagering information is provided for years ended December 31, 1999 and 1998. Although the summary reflects handle for the full year, only revenues generated since the subsidiaries' acquisition dates have been included in the Company's results of operations.*

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Net Revenues

Net revenues increased $111.1 million (75%) from $147.3 million in 1998 to $258.4 million in 1999. Calder Race Course contributed $72.4 million and Hollywood Park contributed $30.5 million to the increase in 1999 net revenues. Churchill Downs revenues increased $1.5 million (2%) due primarily to an increase in corporate sponsor event ticket prices, admissions and seat revenue, concessions, and program revenue as a result of record attendance on Kentucky Oaks and Kentucky Derby days. Hoosier Park revenues increased $3.5 million (7%) primarily due to increased simulcasting revenues and a $2.0 million increase in the riverboat gross admissions subsidy of which a portion was required to be spent on purses and marketing expenses. Net revenues for Ellis Park for 1999 increased $2.3 million (13%) primarily due to the timing of the 1998 acquisition and increased pari-mutuel wagering revenue for 1999. Other operations, which include Charlson Broadcast Technologies, LLC ("CBT") and Kentucky Horse Center, comprised the remaining $0.9 million of the increase.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998 (cont.)

Operating Expenses

Operating expenses increased $88.4 million (74%) from $119.0 million in 1998 to $207.4 million in 1999, including Calder Race Course and Hollywood Park operating expenses of $54.4 million and $26.5 million, respectively. Churchill Downs operating expenses increased $1.9 million (3%). Hoosier Park operating expenses increased $2.8 million (7%) due primarily to increases in purses payable consistent with the increase in pari-mutuel revenue and an increase in required purses and marketing expenses related to the riverboat admissions subsidy. Ellis Park operating expenses increased $2.8 million (18%) during 1999 as compared to expenses after the acquisition date of April 21, 1998 for the prior year.

Gross Profit

Gross profit increased $22.7 million (80%) from $28.3 million in 1998 to $51.0 million in 1999. The increase was primarily due to an $18.0 million and $4.0 million increase in gross profit from Calder Race Course and Hollywood Park, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased by $7.4 million (66%) from $11.2 million in 1998 to $18.6 million in 1999. Calder Race Course and Hollywood Park added $2.4 million and $1.5 million, respectively, and the inclusion of Ellis Park during all of 1999 contributed $0.2 million of the increase. SG&A expenses at Churchill Downs racetrack and corporate expenses increased $1.7 million (21%) due primarily to increased corporate staffing and compensation expenses reflecting the Company's strengthened corporate services to meet the needs of new business units. Other operations accounted for the remaining $1.6 million of the increase in SG&A expenses. SG&A expenses as a percentage of net revenues decreased slightly from 7.5% in 1998 to 7.2% in 1999.

Other Income and Expense

Interest expense increased $6.9 million from $0.9 million in 1998 to $7.8 million in 1999 primarily as a result of borrowings to finance the acquisitions of Calder Race Course, Hollywood Park and CBT during 1999 and the acquisition of Ellis Park in April 1998.

Income Tax Provision

Our income tax provision increased by $4.1 million during 1999 as compared to 1998 as a result of increased pre-tax earnings and an increase in the estimated effective tax rate from 39.1% in 1998 to 42.1% in 1999 due primarily to non-deductible goodwill amortization expense related to the acquisitions of Calder Race Course and CBT.

Year Ended December 31, 1998 Compared to Year Ended December 31, 1997

Net Revenues

Net revenues increased $28.4 million (24%) from $118.9 million in 1997 to $147.3 million in 1998. Churchill Downs revenues increased $3.5 million (5%) due primarily to increases in simulcast revenues and license, rights, broadcast revenues and increased corporate sponsorship of the Kentucky Derby. Hoosier Park revenues increased $6.2 million (15%) primarily due to increased simulcasting revenues and a $5.1 million increase in the riverboat gross admissions subsidy of which a portion was required to be spent on purses and marketing expenses. Ellis Park contributed $17.4 million to 1998 net revenues since its acquisition in the second quarter. Other operations, including Kentucky Horse Center which was also acquired in the second quarter, comprised the remaining $1.3 million of the increase.

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Year Ended December 31, 1998 Compared to Year Ended December 31, 1997 (cont.)

Operating Expenses
Operating expenses increased $23.7 million (25%) from $95.4 million in 1997 to $119.1 million in 1998. Churchill Downs operating expenses increased $1.9 million (3%) due primarily to increased marketing, simulcast, totalisator and video expenses. Hoosier Park operating expenses increased $5.0 million (14%) due primarily to required increases in purses and marketing expenses of $2.8 million and $0.8 million, respectively, related to the riverboat admissions subsidy. Ellis Park increased 1998 operating expenses by $15.4 million since its acquisition. Other operations, including Kentucky Horse Center, accounted for the remaining $1.4 million of the increase in operating expenses.

Gross Profit
Gross profit increased $4.7 million (20%) from $23.5 million in 1997 to $28.2 million in 1998. The Ellis Park acquisition contributed $2.0 million to 1998 gross profit. Churchill Downs gross profit increased $1.6 million, and Hoosier Park gross profit increased $1.2 million for the reasons described above.

Selling, General and Administrative Expenses
SG&A expenses increased by $2.0 million (22%) from $9.1 million in 1997 to $11.1 million in 1998. SG&A expenses at Churchill Downs increased $1.3 million (19%) due primarily to increased corporate staffing, compensation and business development expenses. Hoosier Park SG&A expenses decreased by $0.2 million (9%) due primarily to declines in professional fees and wages. The acquisition of Ellis Park contributed $0.6 million to the increase in 1998 SG&A expenses. Other operations accounted for the remaining $0.3 million of the increase. SG&A expenses as a percentage of net revenues decreased slightly from 7.6% in 1997 to 7.5% in 1998.

Other Income and Expense
Interest expense increased $0.6 million from $0.3 million in 1997 to $0.9 million in 1998 as a result of borrowings to finance our second quarter acquisition of Ellis Park and Kentucky Horse Center.

Income Tax Provision
Our income tax provision increased by $1.0 million from $5.8 million in 1997 to $6.8 million in 1998 primarily as the result of an increase in pre-tax earnings of $2.3 million. The effective income tax rate increased slightly from 38.9% in 1997 to 39.1% in 1998 due primarily to non-deductible goodwill amortization expense related to the acquisition of Ellis Park and Kentucky Horse Center and increases in other permanent differences, partially offset by the reversal of the valuation allowance on certain state income tax net operating loss carryforwards.

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

The net plant and equipment increase of $191.8 million during 1999 included $189.2 million for the acquisitions of Hollywood Park, Calder Race Course and CBT. The remaining increase was due to routine capital spending at our operating units offset by current year depreciation expense.

Intangible assets increased $54.0 million primarily as a result of the addition of approximately $52.0 million of goodwill due to the acquisitions of Calder Race Course and CBT. In addition, deferred financing costs of $3.1 million related to our new $250 million revolving loan facility are included. These increases were partially offset by current year amortization expense.

The long-term debt increase of $167.4 million was the result of additional borrowings on our bank line of credit during 1999 used to fund the 1999 acquisitions of Hollywood Park, Calder Race Course and CBT.

Deferred income tax liabilities increased by $8.5 million primarily as a result of the Calder Race Course acquisition during the second quarter of 1999.

Common stock increased by $62.7 million primarily due to $62.1 million in net proceeds received from our public offering during the third quarter of 1999.

Significant Changes in the Balance Sheet December 31, 1998 to December 31, 1997

Plant and equipment increased $25.0 million during 1998, which included $22.0 million for the acquisition of Ellis Park and Kentucky Horse Center. Routine capital spending at our operating units made up the remainder of the increase. Accumulated depreciation increased $5.5 million for current year depreciation expense.

Intangible assets increased $6.5 million as a result of the acquisition of Ellis Park and Kentucky Horse Center.

We borrowed on our bank line of credit during 1998 primarily to fund the Ellis Park acquisition during the second quarter.

Deferred income tax liabilities increased to $6.9 million in 1998, an increase of $4.6 million from 1997 balances, primarily as a result of the acquisition of Ellis Park and Kentucky Horse Center.

Liquidity and Capital Resources

The working capital surplus (deficiency) was $0.8, $(7.8) and $(8.0) million for the years ended December 31, 1999, 1998 and 1997, respectively. Working capital surplus/deficiency results from the nature and seasonality of our business. Cash flows provided by operations were $39.7, $10.8 and $10.5 million for the years ended December 31, 1999, 1998 and 1997, respectively. The significant increase in operating cash flow for 1999 was primarily a result of the current year acquisitions. The net increase of $0.3 million in 1998 resulted from a $1.4 million increase in net earnings and $1.2 million increase in depreciation and amortization coupled with the timing of accounts receivable, accounts payable, income taxes payable and deferred revenue balances. 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 any acquisitions.

Cash flows used in investing activities were $240.4, $20.8 and $6.9 million for the years ended December 31, 1999, 1998 and 1997, respectively. 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 CBT during the first quarter. We used $12.6 million for capital spending at our facilities including $1.8 million for the construction of the main entrance and corporate offices, $2.2 million for the construction of a stable area dormitory and $0.7 million for the renovation of the racing offices at the Churchill Downs racetrack facility. The additional increase in capital spending from prior year spending is primarily the result of routine capital spending at CBT and Calder Race Course, which were acquired during 1999. The capital additions for all locations, including the expansion of Churchill Downs' main entrance and expansion of our corporate offices, are expected to approximate $16.6 million for 2000.

Cash flows provided by (used in) financing activities were $223.3, $7.0 and $(2.5) million for the years ended December 31, 1999, 1998 and 1997, respectively. We borrowed $269.5 million on our line of credit during 1999 primarily to finance the purchase of Hollywood Park, Calder Race Course and CBT. We received net proceeds of $62.1 million in connection with the July 15, 1999 common stock public offering and an additional $0.6 million for the issuance of common stock under our stock purchase plan and the exercise of stock options. Proceeds from the stock offering and operations were used to repay $102.5 million on our line of credit. In addition, cash dividends of $3.8 million were paid to shareholders in 1999 (declared in 1998) versus $3.7 million paid in 1998 (declared in 1997).

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In April 1999, our total line of credit was increased to $250 million under a new revolving loan facility, of which $178 million was outstanding at December 31, 1999. This credit facility replaced a $100 million line of credit obtained during the third quarter of 1998. The new facility is collateralized by substantially all of our assets. This credit facility is intended to provide funds for acquisitions and to meet working capital, capital expenditures and other short-term requirements. Proceeds from the sale of a portion of our interest in Hoosier Park and the sale of KHC are expected to be used to repay a portion of this credit facility. The new revolving loan facility matures in 2004.

Impact of the Year 2000 Issue

During 1999, we completed a company-wide program to make our computer systems Year 2000 compliant. The Year 2000 issue is the result of computer programs that were written using two digits rather than four to define the applicable year in date-dependent systems. If our computer programs with date-sensitive functions were not Year 2000 compliant, they may not have been able to distinguish the year 2000 from the year 1900. This could have resulted in system failure or miscalculations leading to a disruption of business operations.

As of December 31, 1999, we had completed the Year 2000 compliance evaluation for our owned systems as well as issues involving third-party service providers. In addition, we have also completed the Year 2000 compliance evaluation for our recent acquisitions of Calder Race Course and Hollywood Park and the remediation plans were completed on all critical operating systems. We have not experienced any disruptions to our business operations as a result of the Year 2000 issue. While we will continue to monitor our systems for continued Year 2000 compliance and continue to verify the Year 2000 preparedness of our third-party service providers, we do not anticipate any significant business disruptions related to this matter.

Total cost to remediate Year 2000 compliance issues was approximately $275,000. Our management believes that any future costs to remediate Year 2000 compliance issues will not be material to our financial position or results of operations.

Subsequent Events

We have entered into a definitive agreement with Keeneland Association, Inc. ("Keeneland") whereby Keeneland will purchase our Thoroughbred training and boarding facility known as Kentucky Horse Center ("KHC"). Keeneland has agreed to purchase KHC for a cash payment of $5 million. Proceeds from the sale will be used to repay a portion of our line of credit. The sale is subject to certain closing conditions, and closing is expected during March or April of 2000.

We have also entered into a definitive agreement with Centaur, Inc. ("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 which owns Hoosier Park racetrack and related OTBs. Upon closing, we will retain a 51% interest in HPLP and continue to manage its day-to-day operations. Centaur, which already owned a portion of HPLP prior to the agreement, will hold a 39% minority interest in HPLP. The transaction is subject to certain closing conditions, including the approval of the IHRC and various regulatory agencies. The agreement also contains a provision under which Centaur has the right to purchase our remaining interest at any time prior to July 31, 2001. Upon failure of Centaur to exercise this provision, both parties will have an opportunity to purchase the other's remaining interest. We do not expect our earnings to be significantly affected by this sale. We expect any loss in Hoosier Park annual income to be significantly offset by a reduction in interest expense as a result of using the proceeds from the sale to repay a portion of our line of credit. Closing is expected during the second quarter of 2000.

Quantitative and Qualitative Disclosures About Market Risk

At December 31, 1999, we had $178.0 million of debt outstanding under our revolving loan facility which bears interest at LIBOR based variable rates. We are exposed to market risk on this 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 pre-tax earnings and cash flows by $1.8 million.

In order to mitigate a portion of the market risk associated with our variable rate debt, we entered into interest rate swap contracts with a major financial institution. Under terms of the contracts we receive a LIBOR based variable interest rate and pay a fixed interest rate of 5.89% and 5.92% on notional amounts of $35.0 million and $70.0 million, respectively. The $70.0 million interest rate swap matured in March 2000 and the $35.0 million interest rate swap matures in August 2000. At December 31, 1999, these interest rate swaps approximated a mark-to-market value of $77,000 based on current interest rates. Assuming the December 31, 1999 notional amounts under the interest rate swap contracts remain constant, a one percentage point increase in the LIBOR rate would increase pre-tax earnings and cash flows by $1.1 million.

Upon expiration of the $70.0 million interest rate swap in early March 2000, we entered into a 3-year interest rate swap in which we pay a fixed interest rate of 7.015% on a notional amount of $35.0 million. Management plans to engage in further interest rate swap agreements in the future to protect our interest rate exposure.

Financial Statements and Supplementary Data

Report of Independent Accountants

To the Shareholders and Board of Directors
Churchill Downs Incorporated

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Churchill Downs Incorporated and its subsidiaries as of December 31, 1999, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits.
We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.
We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP

Louisville, Kentucky
February 23, 2000

Consolidated Balance Sheets

(in thousands)

Assets: December 31,	1999	1998	1997
Current assets:			
Cash and cash equivalents	$ 29,060	$ 6,380	$ 9,280
Accounts receivable	24,279	11,968	7,087
Other current assets	2,751	1,049	541
Total current assets	56,090	19,397	16,908
Other assets	4,740	3,796	3,884
Plant and equipment, net	274,882	83,088	63,163
Intangible assets, net	62,334	8,370	1,894
	$ 398,046	$ 114,651	$ 85,849
Liabilities And Shareholders' Equity:			
Current liabilities:			
Accounts payable	$ 14,794	$ 6,381	$ 6,549
Accrued expenses	23,821	8,248	7,121
Dividends payable	4,927	3,762	3,658
Income taxes payable	336	258	187
Deferred revenue	10,860	8,412	7,345
Long-term debt, current portion	552	127	80
Total current liabilities	55,290	27,188	24,940
Long-term debt	180,898	13,538	2,633
Other liabilities	8,263	1,756	2,506
Deferred income taxes	15,474	6,938	2,377
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: 9,854 shares in 1999; 7,525 shares in 1998; and 7,317 shares in 1997	71,634	8,927	3,615
Retained earnings	66,667	56,599	49,843
Deferred compensation costs	(115)	(230)	—
Note receivable for common stock	(65)	(65)	(65)
	138,121	65,231	53,393
	$ 398,046	$ 114,651	$ 85,849

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

Consolidated Statements of Earnings

(in thousands, except per share data)

Year Ended December 31,	1999	1998	1997
Net revenues	$ 258,427	$ 147,300	$ 118,907
Operating expenses:			
Purses	97,585	50,193	39,718
Other direct expenses	109,783	68,788	55,706
	207,368	118,981	95,424
Gross profit	51,059	28,319	23,483
Selling, general and administrative expenses	18,546	11,176	9,078
Operating income	32,513	17,143	14,405
Other income (expense):			
Interest income	847	680	575
Interest expense	(7,839)	(896)	(332)
Miscellaneous, net	334	342	325
	(6,658)	126	568
Earnings before provision for income taxes	25,855	17,269	14,973
Provision for income taxes	10,879	6,751	5,825
Net earnings	$ 14,976	$ 10,518	$ 9,148
Earnings per common share data:			
Basic	$ 1.74	$ 1.41	$ 1.25
Diluted	$ 1.72	$ 1.40	$ 1.25
Weighted average shares outstanding:			
Basic	8,598	7,460	7,312
Diluted	8,718	7,539	7,321

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

Consolidated Statements of Shareholders' Equity

(in thousands, except per share data)

Years ended December 31, 1999, 1998, 1997	Common Shares	Stock Amount	Retained Earnings	Note Receivable Common Stock	Deferred Compensation Costs	Total
Balances December 31, 1996	7,309	$ 3,493	$ 44,353	$ (65)	—	$ 47,781
Net earnings			9,148			9,148
Issuance of common stock at $14.45 per share	8	122				122
Cash dividends, $.50 per share			(3,658)			(3,658)
Balances December 31, 1997	7,317	3,615	49,843	(65)	—	53,393
Net earnings			10,518			10,518
Deferred compensation		344			$ (344)	—
Deferred compensation amortization					114	114
Issuance of common stock at $24.25 per share in conjunction with RCA acquisition	200	4,850				4,850
Issuance of common stock at $14.60 per share	8	118				118
Cash dividends, $.50 per share			(3,762)			(3,762)
Balances December 31, 1998	7,525	8,927	56,599	(65)	(230)	65,231
Net earnings			14,976			14,976
Deferred compensation amortization					115	115
Issuance of common stock at $29.00 per share	2,300	62,122				62,122
Issuance of common stock at $24.00 per share	7	170				170
Exercise of stock options	22	415	19			434
Cash dividends, $.50 per share			(4,927)			(4,927)
Balances December 31, 1999	9,854	$ 71,634	$ 66,667	$ (65)	$ (115)	$ 138,121

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

Consolidated Statements of Cash Flows

(in thousands)

Years ended December 31,	1999	1998	1997
Cash flows from operating activities:			
Net earnings	$ 14,976	$ 10,518	$ 9,148
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	11,306	5,744	4,559
Deferred income taxes	(502)	(121)	352
Deferred compensation	285	183	55
Increase (decrease) in cash resulting from changes in operating assets and liabilities:			
Accounts receivable	(8,971)	(2,973)	(2,053)
Other current assets	(1,119)	(293)	(153)
Accounts payable	7,619	(2,211)	680
Accrued expenses	11,150	386	(434)
Income taxes payable (refundable)	98	71	(2,324)
Deferred revenue	(231)	758	1,017
Other assets and liabilities	5,121	(1,246)	(377)
Net cash provided by operating activities	39,732	10,816	10,470
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired of $4,200 in 1999 and $517 in 1998	(228,303)	(17,232)	—
Additions to plant and equipment, net	(12,083)	(3,524)	(4,568)
Purchase of minority-owned investment	—	—	(2,338)
Net cash used in investing activities	(240,386)	(20,756)	(6,906)
Cash flows from financing activities:			
Decrease in long-term debt, net	(1,295)	(140)	(240)
Borrowings on bank line of credit	269,500	22,000	—
Repayments of bank line of credit	(102,500)	(11,000)	—
Payment of loan origination costs	(2,867)	(280)	—
Payment of dividends	(3,762)	(3,658)	(2,375)
Capital contribution by minority interest in subsidiary	1,551	—	—
Common stock issued	62,707	118	122
Net cash provided by (used in) financing activities	223,334	7,040	(2,493)
Net increase (decrease) in cash and cash equivalents	22,680	(2,900)	1,071
Cash and cash equivalents, beginning of period	6,380	9,280	8,209
Cash and cash equivalents, end of period	$ 29,060	$ 6,380	$ 9,280
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	$ 6,858	$ 497	$ 151
Income taxes	$ 10,796	$ 7,130	$ 7,915
Schedule of non-cash activities:			
Issuance of common stock related to the acquisition of RCA	—	$ 4,850	—
Invoicing for future events	$ 2,678	$ 678	$ 402
Plant and equipment additions included in accounts payable	$ 502	$ 95	—
Compensation expense	—	$ 344	—

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

Notes to Consolidated Financial Statements

(in thousands, except per share data)

1. Basis of Presentation and Summary of Significant Accounting Policies Followed

Basis of Presentation

Churchill Downs Incorporated (the "Company") conducts pari-mutuel wagering on live race meetings for Thoroughbred horses and participates in intrastate and interstate simulcast wagering at its racetracks in Kentucky, California and Florida. In addition, the Company, through its subsidiary, Hoosier Park L.P. ("Hoosier Park"), conducts pari-mutuel wagering on live Thoroughbred, Quarter Horse and Standardbred horse races and participates in interstate simulcast wagering. The Company's Kentucky, California, Florida and Indiana operations are subject to regulation by the racing commissions of the respective states.

The accompanying consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, Churchill Downs California Company d/b/a Hollywood Park Race Track ("Hollywood Park"), Calder Race Course, Inc. and Tropical Park, Inc. which hold licenses to conduct horse racing at Calder Race Course ("Calder Race Course"), Ellis Park Race Course ("Ellis Park"), Churchill Downs Management Company ("CDMC"), Churchill Downs Investment Company ("CDIC"), Kentucky Horse Center and Anderson Park Inc. ("Anderson") and its majority-owned subsidiaries, Hoosier Park and Charlson Broadcast Technologies, LLC ("CBT"). All significant intercompany balances and transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

A Summary of Significant Accounting Policies Followed

Cash Equivalents

The Company considers investments with original maturities of three months or less to be cash equivalents. The Company has, from time to time, cash in the bank in excess of federally insured limits.

Plant and Equipment

Plant and equipment are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets as follows: 10 to 30 years for grandstands and buildings, 3 to 11 years for equipment, 5 to 10 years for furniture and fixtures and 10 to 20 years for tracks and other improvements.

Intangible Assets

Amortization of the cost of acquisitions in excess of fair value of assets acquired and the Indiana racing license is provided over 40 years using the straight-line method. Loan origination costs on the Company's line of credit are being amortized under the effective interest method over 60 months, the term of the loan.

Long-Lived Assets

In the event that facts and circumstances indicate that the carrying amount of tangible or intangible long-lived assets or groups of assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the assets would be compared to the assets' carrying amount to determine if a write-down to market value or discounted cash flow value is required.

Interest Rate Swaps

The Company utilizes interest rate swap contracts to hedge exposure to interest rate fluctuations on its variable rate debt. The differential between the fixed interest rate paid and the variable interest rate received under the interest rate swap contracts is recognized as an adjustment to interest expense in the period in which the differential occurs. Differential amounts incurred under the interest rate swap contracts but not settled in cash at the end of a reporting period are recorded as receivables or payables in the balance sheet. Any gains or losses realized on the early termination of interest rate swap contracts are deferred and amortized as an adjustment to interest expense over the remaining term of the underlying debt instrument.

Notes to Consolidated Financial Statements

(in thousands, except per share data)

1. Basis of Presentation and Summary of Significant Accounting Policies Followed (cont.)

Deferred Revenue

Deferred revenue includes primarily advance sales related to the Kentucky Derby and Oaks races in Kentucky and other advanced billings on racing events.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees." In accordance with Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-based Compensation" pro forma disclosure of net earnings and earnings per share are presented in Note 10 as if SFAS No. 123 had been applied.

Reclassification

Certain financial statement amounts have been reclassified in the prior years to conform to current year presentation.

2. Acquisitions

On September 10, 1999, the Company acquired the assets of the Hollywood Park Race Track 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 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 Race Track have been included in the Company's consolidated financial statements since the date of acquisition. The allocation of the purchase price is preliminary and may require adjustment in the Company's future financial statements based on a final determination of the fair value of assets acquired and liabilities assumed in the acquisition.

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, plus 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. The allocation of the purchase price is preliminary and may require adjustment in the Company's future financial statements based on a final determination of the fair value of assets acquired and liabilities assumed in the acquisition.

On April 21, 1998, the Company acquired from TVI Corp. ("TVI") all of the outstanding stock of Racing Corporation of America ("RCA") for a purchase price of $22.6 million, which includes transaction costs of $0.6 million. As part of the transaction, TVI received 0.2 million shares of the Company's common stock valued at $4.9 million with the remaining balance of $17.1 million paid from cash on hand and a draw on the Company's bank line of credit. The acquisition was accounted for by the Company under the purchase method of accounting and, accordingly, the financial position and results of operations of RCA have been included in the Company's consolidated financial statements since the date of acquisition.

(in thousands, except per share data)

2. Acquisitions (cont.)

Following are the unaudited pro forma results of operations as if the September 10, 1999 acquisition of Hollywood Park Race Track, the July 20, 1999 stock issuance, the April 23, 1999 acquisition of Calder Race Course and the April 21, 1998 acquisition of RCA had occurred on January 1, 1998:

December 31,	1999	1998
Net revenues	$ 335,254	$ 318,017
Net earnings	$ 20,200	$ 15,993
Earnings per common share:		
Basic	$ 2.05	$ 1.63
Diluted	$ 2.03	$ 1.62
Weighted average shares outstanding:		
Basic	9,834	9,820
Diluted	9,953	9,900

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

3. Plant and Equipment

Plant and equipment is comprised of the following:

	1999	1998	1997
Land	$ 105,292	$ 7,632	$ 5,999
Grandstands and buildings	201,613	73,377	57,580
Equipment	17,120	4,979	3,416
Furniture and fixtures	7,741	5,341	4,328
Tracks and other improvements	39,602	37,998	33,118
Construction in process	2,411	249	113
	373,779	129,576	104,554
Accumulated depreciation	(98,897)	(46,488)	(41,391)
	$ 274,882	$ 83,088	$ 63,163

Depreciation expense was approximately $9,506, $5,490 and $4,288 for the years ended December 31, 1999, 1998 and 1997.

4. Intangible assets

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

	1999	1998	1997
Cost of acquisitions in excess of fair value of net assets acquired	$ 59,433	$ 6,449	—
Indiana racing license	2,085	2,085	$ 2,085
Loan origination costs	3,076	280	—
	64,594	8,814	2,085
Accumulated amortization	(2,260)	(444)	(191)
	$ 62,334	$ 8,370	$ 1,894

Amortization expense was approximately $1,353, $253 and $271 for the years ended December 31, 1999, 1998 and 1997.

5. Income Taxes

Components of the provision for income taxes are as follows:

	1999	1998	1997
Currently payable:			
Federal	$ 9,528	$ 5,795	$ 4,617
State and local	1,853	1,077	856
	11,381	6,872	5,473
Deferred:			
Federal	(439)	46	308
State and local	(63)	6	44
	(502)	52	352
Reversal of valuation allowance	—	(173)	—
	$ 10,879	$ 6,751	$ 5,825

Notes to Consolidated Financial Statements

(in thousands, except per share data)

5. Income Taxes (cont.)

The Company's income tax expense is different from the amount computed by applying the statutory federal income tax rate to income before taxes as follows:

	1999	1998	1997
Federal statutory tax on earnings before income tax	$ 9,049	$ 5,942	$ 5,141
State income taxes, net of federal income tax benefit	1,154	747	612
Permanent differences and other	676	235	72
Reversal of valuation allowance	—	(173)	—
	$ 10,879	$ 6,751	$ 5,825

At December 31, 1999, the Company has net operating loss carryforwards of approximately $1,169 for Indiana state income tax purposes expiring from 2009 through 2011 and approximately $6,401 for Kentucky state income tax purposes expiring from 2002 through 2011. Management has determined that its ability to realize future benefits of the state net operating loss carryforwards meets the "more likely than not" criteria of SFAS No. 109, "Accounting for Income Taxes"; therefore, no valuation allowance has been recorded at December 31, 1999.

Components of the Company's deferred tax assets and liabilities are as follows:

	1999	1998	1997
Deferred tax liabilities:			
Property and equipment in excess of tax basis	$ 16,288	$ 7,805	$ 2,415
Racing license in excess of tax basis	650	650	636
Other	66	—	—
Deferred tax liabilities	17,004	8,455	3,051
Deferred tax assets:			
Supplemental benefit plan	337	316	295
State net operating loss carryforwards	638	857	173
Allowance for uncollectible receivables	345	87	71
Other	830	437	378
Deferred tax assets	2,150	1,697	917
Valuation allowance for state net operating loss carryforwards	—	—	173
Net deferred tax liability	$ 14,854	$ 6,758	$ 2,307
Income taxes are classified in the balance sheet as follows:			
Net non-current deferred tax liability	$ 15,474	$ 6,938	$ 2,377
Net current deferred tax asset	(620)	(180)	(70)
	$ 14,854	$ 6,758	$ 2,307

(in thousands, except per share data)

6. Shareholders' Equity

On July 20, 1999 the Company issued 2,300 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.

On March 19, 1998, the Company's Board of Directors authorized a 2-for-1 stock split of its common stock effective March 30, 1998. All share and per share amounts in the accompanying consolidated financial statements have been restated to give effect to the stock split.

Additionally, the Company's Board of Directors approved a stockholder "Rights Plan" (the "Plan") on March 19, 1998, which grants each stockholder the right to purchase a fraction of a share of Series 1998 Preferred Stock at the rate of one right for each share of the Company's common stock. The rights will become exercisable 10 business days (or such later date as determined by the Board of Directors) after any person or group acquires, obtains a right to acquire or announces a tender offer for 15% or more of the Company's outstanding common stock. The rights would allow the holder to purchase preferred stock of the Company at a 50% discount. The Plan is intended to protect stockholders from takeover tactics that may be used by an acquirer that the Board believes are not in the best interests of the shareholders. The Plan expires on March 19, 2008.

7. Employee Benefit Plans

The Company has a profit-sharing plan that covers all employees with one year or more of service and 1,000 or more worked hours. The Company will match contributions made by the employee up to 3% of the employee's annual compensation. The Company will also match at 50%, contributions made by the employee up to an additional 2%. The Company may also contribute a discretionary amount determined annually by the Board of Directors as well as a year-end discretionary match not to exceed 4%. The Company's contribution to the plan for the years ended December 31, 1999, 1998 and 1997 was approximately $819, $806 and $535 respectively.

The Company is a member of a noncontributory defined benefit multi-employer retirement plan for all members of the Pari-mutuel Clerk's Union of Kentucky and several other collectively-bargained retirement plans which are administered by unions. Contributions are made in accordance with negotiated labor contracts. Retirement plan expense for the years ended December 31, 1999, 1998 and 1997 was approximately $665, $258 and $205, respectively. The Company's policy is to fund this expense as accrued.

The estimated present value of future payments under a supplemental benefit plan is charged to expense over the period of active employment of the employees covered under the plan. Supplemental benefit plan expense for the years ended December 31, 1999, 1998 and 1997 was approximately $55, $55 and $51, respectively.

8. Long-Term Debt

On April 23, 1999, the Company increased its line of credit to $250 million under a new revolving loan facility through a syndicate of banks headed by its principal lender to meet working capital and other short-term requirements and to provide funding for acquisitions. This credit facility replaced a $100 million line of credit obtained during the third quarter of 1998. The interest rate on the borrowing is based upon LIBOR plus 75 to 250 additional basis points, which is determined by certain Company financial ratios. There was $178.0 million outstanding on the line of credit at December 31, 1999 compared to $11.0 million outstanding at December 31, 1998 and no borrowings outstanding at December 31, 1997 under previous lines of credit. The line of credit is collateralized by substantially all of the assets of the Company and its wholly owned subsidiaries, and matures in 2004.

Notes to Consolidated Financial Statements

(in thousands, except per share data)

8. Long-Term Debt (cont.)

During the third quarter of 1999 we entered into interest rate swap contracts with a major financial institution which have termination dates through August 31, 2000. Under the terms of the contracts we receive a LIBOR based variable interest rate and pay a fixed interest rate of 5.89% and 5.92% on notional amounts of $35.0 million and $70.0 million, respectively. The variable interest rate paid on the contracts is determined based on LIBOR on the last day of each month, which is consistent with the variable rate determination on the underlying debt.

The Company also has two non-interest bearing notes payable in the aggregate face amount of $900 relating to the purchase of an intrastate wagering license from the former owners of the Louisville Sports Spectrum property. Interest has been imputed at 8%. The balance of these notes net of unamortized discount was $110, $196 and $276 at December 31, 1999, 1998 and 1997, respectively. The notes require aggregate annual payments of $110.

On May 31, 1996, the Company entered into a Partnership Interest Purchase Agreement with Conseco, LLC ("Conseco") for the sale of 10% of the Company's partnership interest in Hoosier Park to Conseco. The transaction also included assumption by Conseco of a loan to the Company of approximately $2.6 million, of which the balance is $2.4 million at December 31, 1999. The loan requires interest of prime plus 2% (10.5% at December 31, 1999) payable monthly with principal due November 2004. The note is collateralized by 10% of the assets of Hoosier Park.

Future Aggregate Maturities of Long-Term Debt

2000	$ 552
2001	359
2002	127
2003	17
2004	180,395
	$ 181,450

9. Operating Leases

The Company has a long-term operating lease for the land in Anderson, Indiana on which its Hoosier Park facility is located, as well as operating leases for the Indianapolis off-track betting facility and certain totalisator and audio/visual and other equipment and services. The Anderson lease expires in 2003, with an option to extend the lease for three additional 10-year terms. The Indianapolis lease expires in 2009, with an option to extend the lease for two additional five-year terms. The leases include provisions for minimum lease payments as well as contingent lease payments based on handle or revenues. Total annual rent expenses for contingent lease payments including certain totalisator and audio/visual equipment and services and land and facility rent was approximately $6,287, $3,942 and $3,475 for the years ended December 31, 1999, 1998 and 1997. Total rent expense for all operating leases was approximately $6,832, $4,022 and $3,803 for the years ended December 31, 1999, 1998 and 1997.

Future Minimum Operating Lease Payments

2000	$ 1,088
2001	885
2002	646
2003	513
2004	405
Thereafter	1,841
	$ 5,378

(in thousands, except per share data)

10. Stock-Based Compensation Plans

Employee Stock Options

The Company sponsors both the "Churchill Downs Incorporated 1997 Stock Option Plan" (the "97 Plan") and the "Churchill Downs Incorporated 1993 Stock Option Plan" (the '93 Plan"), stock-based incentive compensation plans, which are described below. The Company applies APB Opinion 25 and related interpretations in accounting for both the plans. However, pro forma disclosures are as if the Company adopted the cost recognition provisions of SFAS 123 are presented below.

The Company is authorized to issue up to 300 shares and 400 shares of common stock (as adjusted for the stock split) under the 97 Plan and 93 Plan, respectively, pursuant to "Awards" granted in the form of incentive stock options (intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended) and non-qualified stock options. Awards may be granted to selected employees of the Company or any subsidiary.

Both the 97 Plan and the 93 Plan provide that the exercise price of any incentive stock option may not be less than the fair market value of the common stock on the date of grant. The exercise price of any nonqualified stock option is not so limited by the plans. The Company granted stock options in 1999, 1998 and 1997. The stock options granted in those years have contractual terms of 10 years and varying vesting dates, ranging from one to three years following the date of grant. In accordance with APB 25, the Company has not recognized any compensation cost for these stock options.

A summary of the status of the Company's stock options as of December 31, 1999, 1998 and 1997 and the changes during the year ended on those dates is presented below:

	1999		1998		1997	
	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices
Outstanding at beginning of the year	478	$ 20.86	426	$ 19.45	337	$ 19.08
Granted	154	23.70	52	32.50	89	20.83
Exercised	22	19.30	—	—	—	—
Canceled	—	—	—	—	—	—
Forfeited	10	22.53	—	—	—	—
Expired	—	—	—	—	—	—
Outstanding at end of year	600	$ 21.62	478	$ 20.86	426	$ 19.45
Exercisable at end of year	311	$ 19.09	248	$ 21.02	207	$ 19.67
Weighted-average fair value per share of options granted during the year		$ 12.01		$ 10.42		$ 6.34

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions for grants in 1999, 1998 and 1997, respectively: dividend yields ranging from 1.20% to 1.54%; risk-free interest rates are different for each grant and range from 5.75% to 6.76%; and the expected lives of options are different for each grant and range from approximately 6.5 to 7.0 years, and expected volatility rates of 43.74%, 24.86% and 19.38% for years ending December 31, 1999, 1998 and 1997.

Notes to Consolidated Financial Statements

(in thousands, except per share data)

10. Stock-Based Compensation Plans (cont.)

The following table summarizes information about stock options outstanding at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/99	Weighted Average Remaining Contributing Life	Weighted Average Exercise Price	Number Exercisable at 12/31/99	Weighted Average Exercise Price
$13.40 to $16.75	20	6.0	$ 15.75	20	$ 15.75
$16.76 to $20.10	273	6.6	$ 18.93	253	$ 18.97
$20.11 to $23.45	240	8.5	$ 22.17	38	$ 21.61
$26.80 to $30.15	8	9.3	$ 29.88	—	—
$30.16 to $33.50	59	9.0	$ 32.67	—	—
TOTAL	600	7.6	$ 21.62	311	$ 19.09

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan (the "Employee Stock Purchase Plan"), the Company is authorized to sell, pursuant to short-term stock options, shares of its common stock to its full-time (or part-time for at least 20 hours per week and at least five months per year) employees at a discount from the common stock's fair market value. The Employee Stock Purchase Plan operates on the basis of recurring, consecutive one-year periods. Each period commences on August 1 and ends on the next following July 31.

On the first day of each 12-month period, August 1, the Company offers to each eligible employee the opportunity to purchase common stock. Employees elect to participate for each period to have a designated percentage of their compensation withheld (after-tax) and applied to the purchase of shares of common stock on the last day of the period, July 31. The Employee Stock Purchase Plan allows withdrawals, terminations and reductions on the amounts being deducted. The purchase price for the common stock is 85% of the lesser of the fair market value of the common stock on (i) the first day of the period, or (ii) the last day of the period. No employee may purchase common stock under the Employee Stock Purchase Plan valued at more than $25 for each calendar year.

Under the Employee Stock Purchase Plan, the Company sold 7 shares of common stock to 131 employees pursuant to options granted on August 1, 1998, and exercised on July 30, 1999. Because the plan year overlaps the Company's fiscal year, the number of shares to be sold pursuant to options granted on August 1, 1999, can only be estimated because the 1999 plan year is not yet complete. The Company's estimate of options granted in 1999 under the Plan is based on the number of shares sold to employees under the Plan for the 1998 plan year, adjusted to reflect the change in the number of employees participating in the Plan in 1999.

(in thousands, except per share data)

10. Stock-Based Compensation Plans (cont.)

A summary of the status of the Company's stock options under the Employee Stock Purchase Plan as of December 31, 1999, 1998 and 1997 and the changes during the year ended on those dates is presented below:

	1999		1998		1997	
	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices	# of Shares Underlying Options	Weighted Average Exercise Prices
Outstanding at beginning of the year	5	$ 24.00	8	$ 14.60	8	$ 14.45
Adjustment to prior year estimated grants	2	$ 24.00	0	$ 14.60	0	$ 14.45
Granted	9	$ 23.90	5	$ 31.45	8	$ 18.94
Exercised	7	$ 24.00	8	$ 14.60	8	$ 14.95
Forfeited	—	—	—	—	—	—
Expired	—	—	—	—	—	—
Outstanding at end of year	9	$ 23.90	5	$ 31.45	8	$ 18.94
Exercisable at end of year	—	—	—	—	—	—
Weighted-average Fair value per share of options granted during the year		$ 8.67		$ 12.16		$ 5.36

Had the compensation cost for the Company's stock-based compensation plans been determined consistent with SFAS 123, the Company's net earnings and earnings per common share for 1999, 1998 and 1997 would approximate the pro forma amounts presented below:

	1999	1998	1997
Net earnings:			
As reported	$ 14,976	$ 10,518	$ 9,148
Pro forma	$ 14,262	$ 10,087	$ 8,605
Earnings per common share:			
As reported			
Basic	$ 1.74	$ 1.41	$ 1.25
Diluted	$ 1.72	$ 1.40	$ 1.25
Pro forma			
Basic	$ 1.66	$ 1.35	$ 1.18
Diluted	$ 1.64	$ 1.34	$ 1.18

The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. The Company anticipates making awards in the future under its stock-based compensation plans.

11. Fair Values of Financial Instruments

Financial Accounting Standards Board ("FASB") Statement No. 107, "Disclosure about Fair Value of Financial Instruments," is a part of a continuing process by the FASB to improve information on financial instruments. The following methods and assumptions were used by the Company in estimating its fair value disclosures for such financial instruments as defined by the Statement:

Cash and Cash Equivalents — The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Long-Term Debt — The carrying amounts of the Company's borrowings under its line of credit agreements and other long-term debt approximates fair value, based upon current interest rates.

Interest Rate Swaps — The carrying amounts of the Company's interest rate swaps approximates mark-to-market value of $77, based upon current interest rates.

Notes to Consolidated Financial Statements

(in thousands, except per share data)

12. Contingencies

Hollywood Park has received cease and desist orders from the California Regional Water Quality Control Board addressing storm water runoff and dry weather discharge issues. We have retained an engineering firm to develop a plan for compliance and to construct certain drainage and waste disposal systems. As part of the 1999 asset acquisition of Hollywood Park, the seller has agreed to indemnify our Company in the amount of $5.0 million for costs incurred in relation to the waste water runoff issue. It is not possible at this time to accurately assess the total potential costs associated with this matter, but we do not believe it will be materially in excess of the indemnification amount.

On January 22, 1992, the Company acquired certain assets of Louisville Downs, Incorporated for $5.0 million including the site of the Louisville Sports Spectrum. In conjunction with this purchase, the Company withheld $1.0 million 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. All of the $1.0 million holdback had been utilized as of December 31, 1999 and additional costs of remediation have not yet been conclusively determined. The sellers have now received a reimbursement from the Commonwealth of Kentucky of $1.0 million for remediation costs, and that amount is now being held in an escrow account to pay further costs of remediation. Approximately $1.2 million, including interest on the escrow principal, remains in the account. The seller has submitted a corrective action plan to the state and it is anticipated that the Kentucky Cabinet of Natural Resources will consent to a closure, either with or without monitoring. In addition to the holdback, we have obtained an indemnity to cover the full cost of remediation from the prior owner of the property. We do not believe the cost of further investigation and remediation will exceed the amount of funds in the escrow.

It is not anticipated that the Company will have any liability as a result of compliance with environmental laws with respect to any of the Company's property. Except as discussed herein, compliance with environmental laws has not affected the ability to develop and operate the Company’s properties and the Company is not otherwise subject to any material compliance costs in connection with federal or state environmental laws.

13. Earnings Per Common Share Computations

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

	1999	1998	1997
Net earnings (numerator) amounts used for basic and diluted per share:	$ 14,976	$ 10,518	$ 9,148
Weighted average shares (denominator) of common stock outstanding per share computations:			
Basic	8,598	7,460	7,312
Plus dilutive effect of stock options	120	79	9
Diluted	8,718	7,539	7,321
Earnings per common share:			
Basic	$ 1.74	$ 1.41	$ 1.25
Diluted	$ 1.72	$ 1.40	$ 1.25

Options to purchase approximately 67, 52 and 10 shares for the years ended December 31, 1999, 1998 and 1997, 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.

(in thousands, except per share data)

14. 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 six segments: (1) Churchill Downs racetrack, the Louisville Sports Spectrum simulcast facility and Churchill Downs corporate expenses (2) Hollywood Park Race Track (3) Calder Race Course (4) Ellis Park racetrack and its on-site simulcast facility (5) Hoosier Park racetrack and its on-site simulcast facility and the other three Indiana simulcast facilities and (6) Other operations, including Kentucky Horse Center, CBT and the Company's investments in various equity interests in the net income of equity method investees, which are not material. Eliminations include the elimination of management fees and other intersegment transactions.

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

The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" in the Company's annual report to stockholders for the year ended December 31, 1999. 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.

The table below presents information about reported segments for the years ended December 31, 1999, 1998 and 1997:

December 31,	1999	1998	1997
Net revenues:			
Churchill Downs including corporate expenses	$ 82,429	$ 80,925	$ 77,404
Hollywood Park	30,494	—	—
Calder Race Course	72,418	—	—
Hoosier Park	51,280	47,744	41,503
Ellis Park	19,653	17,386	—
Other operations	6,151	2,497	1,299
	262,425	148,552	120,206
Eliminations	(3,998)	(1,252)	(1,299)
	$ 258,427	$ 147,300	$ 118,907
EBITDA:			
Churchill Downs including corporate expenses	$ 12,110	$ 14,417	$ 14,205
Hollywood Park	3,842	—	—
Calder Race Course	17,946	—	—
Hoosier Park	6,423	5,599	4,282
Ellis Park	2,071	2,305	—
Other operations	1,314	909	802
	$ 43,706	$ 23,230	$ 19,289
Operating income (loss):			
Churchill Downs including corporate expenses	$ 8,561	$ 10,700	$ 10,557
Hollywood Park	2,574	—	—
Calder Race Course	15,564	—	—
Hoosier Park	5,246	4,499	3,088
Ellis Park	721	1,422	—
Other operations	(153)	522	760
	$ 32,513	$ 17,143	$ 14,405

Notes to Consolidated Financial Statements

(in thousands, except per share data)

14. Segment Information (cont.)

As of December 31,	1999	1998	1997
Total assets:			
Churchill Downs	$ 345,909	$ 89,427	$ 72,490
Hollywood Park	153,126	—	—
Calder Race Course	114,396	—	—
Hoosier Park	32,559	31,732	29,689
Ellis Park	25,015	23,038	—
Other Operations	312,272	71,109	31,180
	983,277	215,306	133,359
Eliminations	(585,231)	(100,655)	(47,510)
	$ 398,046	$ 114,651	$ 85,849

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

As of December 31,	1999	1998	1997
Total EBITDA	$ 43,706	$ 23,230	$ 19,289
Depreciation and amortization	(10,859)	(5,744)	(4,559)
Interest income (expense), net	(6,992)	(216)	243
Earnings before provision for income taxes	$ 25,855	$ 17,270	$ 14,973

15. Subsequent Events

The Company and Keeneland Association, Inc. (“Keeneland”) have entered into a definitive agreement whereby Keeneland will purchase the Company’s Thoroughbred training and boarding facility known as Kentucky Horse Center (“KHC”). Keeneland has agreed to purchase KHC for a cash payment of $5 million. Proceeds from the sale will be used to repay a portion of the Company’s line of credit. The sale is subject to certain closing conditions, and closing is expected during the second quarter of 2000.

The Company has entered into a definitive agreement with Centaur, Inc. (“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 which owns Hoosier Park racetrack and related OTBs. Upon closing, the Company will retain a 51% interest in HPLP and continue to manage its day-to-day operations. Centaur, which already owned a portion of HPLP prior to the agreement, will hold a 39% minority interest in HPLP. The transaction is subject to certain closing conditions, including the approval of the Indiana Horse Racing Commission and various regulatory agencies. The agreement also contains a provision under which Centaur has the right to purchase our remaining interest at any time prior to July 31, 2001. Upon failure of Centaur to exercise this provision both parties will have an opportunity to purchase the other’s remaining interest. The Company does not expect earnings to be significantly affected by this sale, as any loss in Hoosier Park annual income is expected to be significantly offset by a reduction in interest expense as a result of using the proceeds from the sale to repay a portion of the Company’s line of credit. Closing is expected during the second quarter of 2000.

Officers For Churchill Downs Incorporated and Subsidiaries

Churchill Downs Incorporated

William S. Farish
Chairman

Thomas H. Meeker
President and Chief Executive Officer

Robert L. Decker
Executive Vice President and Chief Financial Officer

John R. Long
Executive Vice President and Chief Operating Officer

Michael E. Miller
Senior Vice President, Finance

Rebecca C. Reed
Senior Vice President, General Counsel and Secretary

Karl F. Schmitt, Jr.
Senior Vice President, Communications

Andrew G. Skehan
Senior Vice President, Sales and Marketing

Vicki L. Baumgardner
Vice President, Finance, and Treasurer

Eric W. Bibb
Vice President, Information Technology

James D. Gates, Jr.
Vice President, Development

Jeanne A. Keats
Vice President, Human Resources

Churchill Downs Management Company

Thomas H. Meeker
Chairman

John R. Long
President

Frederick M. Baedeker, Jr.
Senior Vice President, California Operations

C. Kenneth Dunn
Senior Vice President, Florida Operations

Jeffrey M. Smith
Senior Vice President, Indiana Operations, and President, Ellis Park Race Course, Inc.

Alexander M. Waldrop
Senior Vice President, Louisville Operations

Dan L. Parkerson
Senior Vice President, Property Management

Donald R. Richardson
Senior Vice President, Racing

Frank Jemley III
Vice President, Public Affairs

Cathy Z. Rutter
Vice President, Community Relations

Vicki L. Baumgardner
Treasurer

Rebecca C. Reed
Secretary

Churchill Downs (Racetrack)

Alexander M. Waldrop
President and General Manager

John S. Asher
Vice President, Racing Communications

Jerry S. Botts
Vice President, Racing Secretary

Raymond V. Lehr, Jr.
Vice President, Track Superintendent

Kevin Marie Nuss
Vice President, Marketing

David P. Sweazy
Vice President, Operations

Gregory A. Bush
General Manager, Louisville Sports Spectrum

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Vice President, Finance, and Treasurer

Allen N. Gutterman
Vice President, Marketing

John R. Long
Vice President

Vicki L. Baumgardner
Assistant Treasurer

Rebecca C. Reed
Secretary

Mary Ann Guenther
Assistant Secretary

Churchill Downs California Fall Operating Company

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Chairman

Frederick M. Baedeker, Jr.
President

Steve Arnold
Vice President, Finance, and Treasurer

Allen N. Gutterman
Vice President, Marketing

John R. Long
Vice President

Vicki L. Baumgardner
Assistant Treasurer

Rebecca C. Reed
Secretary

Mary Ann Guenther
Assistant Secretary

Churchill Downs California Food Services Company

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President

Steve Arnold
Vice President, Finance, and Treasurer

Allen N. Gutterman
Vice President, Marketing

John R. Long
Vice President

Vicki L. Baumgardner
Assistant Treasurer

Rebecca C. Reed
Secretary

Mary Ann Guenther
Assistant Secretary

Calder Race Course, Inc.

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Chairman

C. Kenneth Dunn
President

Michael Abes
Vice President, Finance, and Treasurer

Randall E. Soth
Vice President and General Manager

Vicki L. Baumgardner
Assistant Treasurer

Rebecca C. Reed
Secretary

Tropical Park, Inc.

Thomas H. Meeker
Chairman

C. Kenneth Dunn
President

Michael Abes
Vice President, Finance, and Treasurer

Randall E. Soth
Vice President and General Manager

Vicki L. Baumgardner
Assistant Treasurer

Rebecca C. Reed
Secretary

Anderson Park, Inc. (General Partner Of Hoosier Park, L.P.)

Thomas H. Meeker
Chairman

Jeffrey M. Smith
President

Richard B. Moore
Executive Vice President and General Manager

Kristina M. Thompson
Vice President, Marketing

Steven L. Wilkening
Vice President, Finance, and Treasurer

Vicki L. Baumgardner
Assistant Treasurer

Robert L. Decker
Assistant Treasurer

Rebecca C. Reed
Secretary

Mary Ann Guenther
Assistant Secretary

Racing Corporation of America

Thomas H. Meeker
Chairman

Jeffrey M. Smith
President

Vicki L. Baumgardner
Assistant Treasurer

Rebecca C. Reed
Secretary

Mary Ann Guenther
Assistant Secretary

Ellis Park Race Course, Inc.

Thomas H. Meeker
Chairman

Jeffrey M. Smith
President

Paul D. Kuerzi
Vice President and General Manager

B. Todd Mosby
Vice President, Marketing

Vicki L. Baumgardner
Assistant Treasurer

Rebecca C. Reed
Secretary

Mary Ann Guenther
Assistant Secretary

Churchill Downs Investment Company

Thomas H. Meeker
Chairman

Robert L. Decker
President

Frederick E. Doyle
Vice President

Matt F. Iuliano
Vice President

Vicki L. Baumgardner
Treasurer

Rebecca C. Reed
Secretary

Mary Ann Guenther
Assistant Secretary

Directors For Churchill Downs Incorporated and Subsidiaries

Churchill Downs Incorporated

Terms expiring in 2000:

William S. Farish*
President, W. S. Farish & Company (trust management company)
Owner and Chief Executive Officer, Lane's End Farm (Thoroughbred breeding and racing)

G. Watts Humphrey, Jr.
President, G. W. H. Holdings, Inc. (private investment company)

Arthur B. Modell
Owner and President, Baltimore Ravens Football Company, Inc. (professional football team)

Dennis D. Swanson
President and General Manager, WNBC-TV (television station)

Terms expiring in 2001:

J. David Grissom*
Chairman, Mayfair Capital, Inc. (private investment firm)

Seth W. Hancock
Partner and Manager, Claiborne Farm
President, Hancock Farms, Inc. (Thoroughbred breeding and farming)
Vice President and Director, Clay Ward Agency, Inc. (equine insurance)

Frank B. Hower, Jr.
Retired. Former Chairman and Chief Executive Officer, Liberty National Bancorp, Inc. (bank holding company) and Liberty National Bank & Trust Company of Louisville

Thomas H. Meeker
President and Chief Executive Officer, Churchill Downs Incorporated

Terms expiring in 2002:

Charles W. Bidwill, Jr.*
Chairman, National Jockey Club (operator of Sportsman's Park Racetrack)

Daniel P. Harrington
President and Chief Executive Officer, HTV Industries, Inc. (private holding company with diversified business interests)

Carl F. Pollard*
Owner, Hermitage Farm (Thoroughbred breeding)

Darrell R. Wells
General Partner, Security Management Company (investments)

Directors Emeriti:

Catesby W. Clay
Chairman Emeriti, River Coal Corporation (coal land lessor)
President, Runnymede Farm, Inc. (Thoroughbred breeding)

Louis J. Herrmann, Jr.
Owner, Louis Hermann Auto Consultant Incorporated (automobile sales)

Stanley F. Hugenberg, Jr.
President, Jackantom Sales Company (manufacturers' representative)

William T. Young
Chairman, W.T. Young, Inc. (warehousing)
Owner, Overbrook Farm (Thoroughbred racing and breeding)

*Executive Committee

Churchill Downs Management Company

Thomas H. Meeker, *Chairman*
Charles W. Bidwill, Jr.
Daniel P. Harrington
John R. Long
Carl F. Pollard
Darrell R. Wells

Churchill Downs California Company

Thomas H. Meeker, *Chairman*
Frederick M. Baedeker, Jr.
Robert L. Decker
John R. Long
Rebecca C. Reed

Churchill Downs California Fall Operating Company

Thomas H. Meeker, *Chairman*
Frederick M. Baedeker, Jr.
Robert L. Decker
John R. Long
Rebecca C. Reed

Churchill Downs California Food Services Company

Thomas H. Meeker, *Chairman*
Frederick M. Baedeker, Jr.
Robert L. Decker
John R. Long
Rebecca C. Reed

Calder Race Course, Inc.

Thomas H. Meeker, *Chairman*
Robert L. Decker
C. Kenneth Dunn
John R. Long
Rebecca C. Reed

Tropical Park, Inc.

Thomas H. Meeker, *Chairman*
Robert L. Decker
C. Kenneth Dunn
John R. Long
Rebecca C. Reed

Anderson Park, Inc.

Thomas H. Meeker, *Chairman*
Michael F. Bonnet
John R. Long
Roderick J. Ratcliff
Jeffrey M. Smith

Racing Corporation of America

Thomas H. Meeker, *Chairman*
Robert L. Decker
John R. Long
Rebecca C. Reed
Jeffrey M. Smith

Ellis Park Race Course, Inc.

Thomas H. Meeker, *Chairman*
Robert L. Decker
John R. Long
Rebecca C. Reed
Jeffrey M. Smith

Churchill Downs Investment Company

Thomas H. Meeker, *Chairman*
Robert L. Decker
J. David Grissom
Rebecca C. Reed

CDI employees starting at the top, from left to right: Rebecca Reed, senior vice president, general counsel and secretary; and Mary Ann Guenther, corporate counsel; both of Churchill Downs Incorporated. Sonny Miller, security at Calder Race Course. Martin Carter, maintenance; Glenn Thompson, track supervisor; and Roy Kyle, carpenter; all of Ellis Park – Carla Grego, office coordinator, Louisville Sports Spectrum. Sandy Blount, maintenance secretary at Hollywood Park.