

CHURCHILL DOWNS INC
Form 10-K
March 14, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 001-33998

(Exact name of registrant as specified in its charter)

Kentucky
(State or other jurisdiction of incorporation or organization)

61-0156015
(IRS Employer Identification No.)

700 Central Avenue, Louisville, Kentucky 40208
(Address of principal executive offices) (zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, No Par Value
(Title of each class registered)

The NASDAQ Stock Market LLC
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of March 4, 2011, 16,694,869 shares of the Registrant's Common Stock were outstanding. As of June 30, 2010, (based upon the closing sale price for such date on the NASDAQ Global Market), the aggregate market value of the shares held by non-affiliates of the Registrant was \$400,400,227.

Portions of the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held on June 16, 2011 are incorporated by reference herein in response to Items 10, 11, 12, 13 and 14 of Part III of Form 10-K. The exhibit index is located on pages 111-116.

Table of Contents

CHURCHILL DOWNS INCORPORATED
INDEX TO ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2010

Part I

Item 1.	<u>Business</u>	3
Item 1A.	<u>Risk Factors</u>	23
Item 1B.	<u>Unresolved Staff Comments</u>	34
Item 2.	<u>Properties</u>	34
Item 3.	<u>Legal Proceedings</u>	34
Item 4.	<u>Reserved</u>	37

Part II

Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	38
Item 6.	<u>Selected Financial Data</u>	40
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	42
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	63
Item 8.	<u>Financial Statements and Supplementary Data</u>	64
Item 9.	<u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	105
Item 9A.	<u>Controls and Procedures</u>	105
Item 9B.	<u>Other Information</u>	106

Part III

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	107
Item 11.	<u>Executive Compensation</u>	107
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	107
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	107
Item 14.	<u>Principal Accounting Fees and Services</u>	107

Part IV

Item 15.	<u>Exhibits and Financial Statement Schedule</u>	108
	<u>Signatures</u>	109
	<u>Schedule II Valuation and Qualifying Accounts</u>	110
	<u>Exhibit Index</u>	111

Table of Contents

PART I

ITEM 1. BUSINESS

A. Introduction

Churchill Downs Incorporated (the Company) is a diversified provider of pari-mutuel horseracing content and technology for consumers and businesses through multiple platforms. We offer gaming products through our casino in Mississippi, our slot and video poker operations in Louisiana and our slot operations in Florida. We were organized as a Kentucky corporation in 1928. Our principal executive offices are located at 700 Central Avenue, Louisville, Kentucky, 40208.

We manage our operations through four operating segments as follows:

1. Racing Operations, which includes:

Churchill Downs Racetrack (Churchill Downs) in Louisville, Kentucky, an internationally known thoroughbred racing operation and home of the Kentucky Derby since 1875;

Arlington Park Racecourse (Arlington Park), a thoroughbred racing operation in Arlington Heights along with ten off-track betting facilities (OTBs) in Illinois;

Calder Race Course (Calder), a thoroughbred racing operation in Miami Gardens, Florida; and

Fair Grounds Race Course (Fair Grounds), a thoroughbred racing operation in New Orleans along with eleven OTBs in Louisiana.

2. Online Business, which includes:

TwinSpires, an Advance Deposit Wagering (ADW) business that is licensed as a multi-jurisdictional simulcasting and interactive wagering hub in the state of Oregon;

Youbet.com, LLC (Youbet), an ADW business acquired by the Company on June 2, 2010. On November 16, 2010, the Youbet customer wagering platform was integrated into the TwinSpire's platform;

Fair Grounds Account Wagering (FAW), an ADW business that is licensed in the state of Louisiana;

Bloodstock Research Information Services (BRIS), a data service provider for the equine industry; and

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Our equity investment in HRTV, LLC (HRTV), a horseracing television channel.

3. Gaming, which includes:

Harlow s Casino Resort & Hotel (Harlow s) in Greenville, Mississippi, a casino and hotel acquired by the Company on December 16, 2010, which operates approximately 900 slot machines, 21 table games and a poker room, a five story, 105-room attached hotel, a 2,600-seat entertainment center, and dining facilities;

Calder Casino, a slot facility in Florida adjacent to Calder, which opened on January 22, 2010, with approximately 1,200 slot machines and which includes a poker room operation branded Studz Poker Club ;

Fair Grounds Slots, a slot facility in Louisiana adjacent to Fair Grounds, which operates over 600 slot machines; and

Video Services, LLC (VSI), the owner and operator of more than 800 video poker machines in Louisiana.

Table of Contents

4. Other Investments, which includes:

United Tote Company and United Tote Canada (collectively "United Tote"), which manufactures and operates pari-mutuel wagering systems for North American racetracks, OTBs and other pari-mutuel wagering businesses;

Churchill Downs Simulcast Productions, LLC ("CDSP"), a provider of television production to the racing industry; and

Our other minor investments.

B. Acquisition and Development Activity

On December 16, 2010, we completed the acquisition of Harlow's, a Greenville, Mississippi casino and hotel, for cash consideration of approximately \$140.4 million. The transaction included the acquisition of a 33,000-square foot casino, a 105-room hotel, a 2,600-seat entertainment center and three dining facilities.

During 2010, we ceased operations of Churchill Downs Entertainment Group, LLC ("CDE"), which was established in 2009 to conceive and produce large-scale entertainment events. We made the decision to dissolve this group primarily because of our belief that achieving financial success conducting large-scale entertainment events was very difficult in the current economy. The results of operations of CDE have been accounted for as discontinued operations in our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

On June 2, 2010, we completed our acquisition of Youbet.com, Inc. pursuant to an Agreement and Plan of Merger dated as of November 11, 2009 for an aggregate purchase price of \$131.2 million, which consisted of \$45.3 million in cash and approximately 2.7 million shares of the Company's common stock, which was valued at \$86.5 million based on the closing price of the Company's common stock on June 1, 2010 of \$32.04. The transaction included the acquisition of the account wagering platform of Youbet and the operations of United Tote, which is a leading supplier of equipment and technology that processes pari-mutuel wagers and payouts.

On January 22, 2010, we opened our second slot facility, Calder Casino, which is adjacent to Calder Race Course. This facility offers over 1,200 slot machines in a single-level, 104,000 square foot facility and includes three dining facilities. During November 2008, we opened our permanent slot facility at Fair Grounds in Louisiana.

On May 14, 2010, we ceased operating TrackNet Media Group LLC ("TrackNet"), a joint venture formed with Magna Entertainment Group, LLC ("Magna"), through which horseracing content was made readily available through a variety of distribution points and wagering platforms in order to enhance growth within the industry. MI Developments ("MID") is the successor in interest to Magna's ownership interests. The Company and MID are now responsible for buying and selling its own horseracing content. All existing third-party content agreements involving TrackNet had been entered into by TrackNet as an agent for each Company-owned and MID-owned racetrack. Accordingly, those contracts, and their underlying rights and obligations, continue to be valid for the remainder of the contracts' respective terms. There was no significant impact on our financial position or results of operations as a result of TrackNet operations ceasing during 2010.

C. Live Racing

We conduct live horseracing at Churchill Downs, Calder, Fair Grounds and Arlington Park. The following is a summary of our significant live racing events and a description of our properties.

The Kentucky Derby and the Kentucky Oaks, both held at Churchill Downs, continue to be our premier racing events. The 2011 Kentucky Derby will offer a minimum \$2.0 million in purse money, and the 2011 Kentucky

Table of Contents

Oaks will offer a minimum \$1.0 million in purse money for the first time, an increase of \$0.5 million over the 2010 running of the Kentucky Oaks. The Kentucky Derby is the first race of the annual series of races for 3-year-old thoroughbreds known as the Triple Crown. Calder is home to The Festival of the Sun and the nationally prominent Summit of Speed, offering approximately \$1.1 million in total purse money. Arlington Park's racing meet is highlighted by the Arlington Million, which is run during the International Festival of Racing at Arlington Park, and offers a purse of \$1.0 million. Fair Grounds' Winter Meet during 2010/2011 is highlighted by Louisiana Derby Day, the richest day in Louisiana racing, which is headlined by the \$1.0 million Louisiana Derby, a major prep race for the Kentucky Derby.

Churchill Downs will host the Breeders' Cup World Thoroughbred Championship (Breeders' Cup) in 2011 for a record eighth time. The Breeders' Cup races will feature total purses of no less than \$25.5 million in 2011 and will be broadcast to a worldwide audience in more than 130 countries. These races are held annually for the purpose of determining thoroughbred champions in fourteen different events.

Churchill Downs

The Churchill Downs racetrack site and improvements (the Churchill facility) are located in Louisville, Kentucky. Churchill Downs has conducted thoroughbred racing continuously since 1875 and is internationally known as the home of the Kentucky Derby. The Churchill facility consists of approximately 147 acres of land with a one-mile dirt track, a seven-eighths ($7/8$) mile turf track, permanent grandstands, luxury suites and a stabling area. Our facility accommodates approximately 52,000 persons in our clubhouse, grandstand, Jockey Club Suites and Finish Line Suites. The facility also includes a state-of-the-art simulcast wagering facility designed to accommodate 1,500 persons, a general admissions area, and food and beverage facilities ranging from concessions to full-service restaurants. The site also has a saddling paddock, accommodations for groups and special events, parking areas for the public and our racetrack and corporate office facilities. The stable area has barns sufficient to accommodate approximately 1,400 horses, a 114-room dormitory and other facilities for backstretch personnel. Additionally, during 2010, the facility added permanent lighting in order to accommodate night racing events.

To supplement the facilities at Churchill Downs, we provide additional stabling facilities sufficient to accommodate 500 horses and a three-quarter ($3/4$) mile dirt track, which is used for training thoroughbreds, at a training facility also located in Louisville. Referred to as Trackside Louisville, this facility provides a base of operation for many horsemen between the Spring and Fall meets and enables us to attract new horsemen to race at Churchill Downs. Trackside Louisville will no longer be available during the winter months due to low usage by the horsemen during those months.

As part of financing improvements to the Churchill facility, in 2002 we transferred title of the Churchill facility to the City of Louisville, Kentucky and leased back the facility. Subject to the terms of the lease, we can re-acquire the facility at any time for \$1.00.

Calder

The Calder racetrack and improvements (the Calder facility) are located in Miami-Dade County, Florida. The Calder facility is adjacent to Sun Life Stadium, home of the Florida Marlins and Miami Dolphins, and consists of approximately 231 acres of land with a one-mile dirt track, a seven-eighths ($7/8$) mile turf track, a training area with a five-eighths ($5/8$) mile training track, permanent grandstands and a stabling area. The facility includes clubhouse and grandstand seating for approximately 15,000 persons, a general admissions area and food and beverage facilities ranging from concessions to full-service restaurants. The stable area consists of a receiving barn, feed rooms, tack rooms, detention barns and living quarters and can accommodate approximately 1,800 horses. The Calder facility also features a saddling paddock, parking areas for the public and office facilities.

Table of Contents

Fair Grounds

The Fair Grounds racetrack facility, located in New Orleans, Louisiana, consists of approximately 145 acres of land, a one mile dirt track, a seven-eighths ($7/8$) mile turf track, permanent grandstands and a stabling area. The facility includes clubhouse and grandstand seating for approximately 5,000 persons, a general admissions area and food and beverage facilities ranging from concessions to clubhouse dining. The stable area consists of a receiving barn, feed rooms, tack rooms, detention barns and living quarters and can accommodate approximately 2,000 horses. The Fair Grounds facility also features a saddling paddock, parking areas and office facilities. During 2008, we completed construction on a new dormitory in the stable area that accommodates 132 persons and will be utilized by stable area employees for temporary housing during live racing meets.

Arlington Park

The Arlington Park racetrack, located in Arlington Heights, Illinois, was constructed in 1927 and reopened its doors in 1989 after a devastating fire four years earlier. The racetrack sits on 336 acres, has a one and one-eighth ($1\ 1/8$) mile synthetic track, a one-mile turf track and a five-eighths ($5/8$) mile training track. The facility includes a permanent clubhouse, grandstand and suite seating for 6,045 persons and food and beverage facilities ranging from fast food to full-service restaurants. The stable area has 34 barns able to accommodate approximately 2,200 horses and a temporary housing unit that accommodates 288 persons. The Arlington Park facility also features a saddling paddock, parking areas and office facilities.

D. Simulcast Operations

We generate a significant portion of our pari-mutuel wagering revenues by sending signals of races from our racetracks to other facilities and businesses (export) and receiving signals from other racetracks (import). Revenues are earned through pari-mutuel wagering on signals that we both import and export.

Arlington Park conducts on-site simulcast wagering only during live racing meets, while Churchill Downs, Calder and Fair Grounds offer year-round simulcast wagering at the racetracks. The OTBs located in Illinois and Louisiana conduct simulcast wagering year-round.

Effective January 2008, as a result of a Florida court ruling and an agreement with Gulfstream Park, Calder recommenced conducting pari-mutuel wagering on import simulcast signals of other racetracks on a year-round basis. Prior to that time, Calder only conducted import simulcast wagering during its live racing meet.

Off-Track Betting Facilities

Eleven of our OTBs are collectively branded Trackside to create a common identity for our OTB operations. Trackside Louisville, which is open for simulcast wagering only on big event days, such as the Kentucky Derby and the Kentucky Oaks, and during days the Churchill facility is being prepared for special events, is an extension of Churchill Downs and is located approximately five miles from the Churchill facility. This 100,000-square-foot property, on approximately 88 acres of land, is a thoroughbred training and stabling annex that has audio visual capabilities for pari-mutuel wagering, seating for approximately 3,000 persons, parking, offices and related facilities for simulcasting races.

Arlington Park operates ten Trackside OTBs that accept wagers on races at Arlington Park as well as on races simulcast from other locations. One OTB is located on the Arlington Park property and another is located in East Moline, Illinois on approximately 122 acres. Arlington Park also leases two OTBs located in Waukegan, Illinois consisting of approximately 25,000 square feet, and Chicago, Illinois consisting of approximately 19,700 square feet. Arlington Park operates six OTBs within existing non-owned Illinois restaurants under license agreements, including the Rockford OTB, which was relocated from its previous location in December 2009. These six OTBs are located in Rockford, South Elgin, McHenry, South Beloit, Lockport and Hodgkins and opened in December 2009, December 2002, June 2003, February 2004, February 2007 and December 2007, respectively.

Table of Contents

Fair Grounds operates eleven OTBs that accept wagers on races at Fair Grounds as well as on races simulcast from other locations. One OTB is located on the Fair Grounds property. Another is located in Kenner, Louisiana consisting of approximately 4.3 acres. Fair Grounds also leases nine OTBs located in these southeast Louisiana communities: Chalmette, which opened in December 2009, consisting of approximately 8,000 square feet of space; Covington, which consists of approximately 7,000 square feet of space; Elmwood, which consists of approximately 15,000 square feet of space; Gretna, which consists of approximately 20,000 square feet of space; Houma, which consists of approximately 10,000 square feet of space; LaPlace, which consists of approximately 7,000 square feet of space; Metairie, which consists of approximately 9,000 square feet of space; Boutte, which consists of approximately 10,000 square feet of space and Thibodaux, which consists of approximately 5,000 square feet of space. Video poker is offered at Chalmette, Kenner, Elmwood, Gretna, Houma, LaPlace, Boutte, Metairie and Thibodaux.

Kentucky Off-Track Betting, LLC

We are a 25% owner of Kentucky Off-Track Betting, LLC (KOTB). KOTB 's purpose is to own and operate facilities for the simulcasting of races and the acceptance of wagers on such races at Kentucky locations other than a racetrack. These OTBs may be located no closer than 75 miles from an existing racetrack without the racetrack 's consent and in no event closer than 50 miles to an existing racetrack. Each OTB must first be approved by the Kentucky Horse Racing Commission (KHRC) and the local government where the facility is to be located. KOTB currently owns or leases and operates OTBs in Corbin, Maysville and Jamestown, Kentucky that conduct simulcast wagering year-round. The OTB located in Pineville, Kentucky closed during the year ended December 31, 2010.

OTBs developed by KOTB provide additional markets for the intrastate simulcasting of and wagering on Churchill Downs ' live races and interstate simulcasting of and wagering on out-of-state signals. KOTB did not contribute significantly to our operations in 2010 and is not anticipated to have a substantial impact on our operations in the future. Our investment in KOTB is not material to our financial position or results of operations.

E. Advance Deposit Wagering

We accept pari-mutuel wagers through Churchill Downs Technology Initiatives Company, which is doing business as TwinSpire. TwinSpire operates our ADW business, which accepts pari-mutuel wagering from customers residing in certain states who establish and fund an account from which they may place wagers via telephone, mobile device or through the internet at www.twinspires.com. TwinSpire offers its customers streaming video of live horse races along with race replays and an assortment of racing and handicapping information. TwinSpire also offers all of its customers the ability to automatically qualify for its rewards program, the Twin Spire Club. TwinSpire 's headquarters is located in Mountain View, California. Industry studies have indicated that advance deposit wagering is the fastest growing segment of the pari-mutuel wagering business, and we believe that TwinSpire is a key component to the growth of the Company.

On June 2, 2010, we completed our acquisition of Youbet, an ADW business. Initially, Youbet and TwinSpire wagering platforms were operated independently, with separate internet websites and customer wagering support operations. On November 16, 2010, the Youbet customer wagering platform was integrated into TwinSpire which provided customers with the ability to utilize features from both operations at a single, enhanced platform at Twinspires.com.

Fair Grounds also operates its own ADW business for Louisiana residents through a contractual agreement with TwinSpire.

Table of Contents

F. Gaming Operations

On December 16, 2010, we completed the acquisition of Harlow s in Greenville, Mississippi for cash consideration of approximately \$140.4 million. The transaction included the acquisition of a 33,000-square foot casino, a 105-room hotel, a 2,600-seat entertainment center and three dining facilities. Harlow s is located on approximately 78 acres of leased land adjacent to U.S. Highway 82 in Greenville, Mississippi. The property is visible from the highway and is the first gaming facility encountered when crossing the newly constructed Greenville Bridge into Mississippi from Arkansas along U.S. Highway 82.

On January 22, 2010, we opened a slot facility, Calder Casino, which is adjacent to Calder and offers over 1,200 slot machines in a single-level, 104,000 square foot facility and a poker room operation branded Studz Poker Club . Calder is the sole thoroughbred racetrack in Miami-Dade County, Florida to offer both live and import simulcast pari-mutuel wagering in addition to a casino facility. The facility offers three dining options, including a buffet dining area, a centrally located bar with a separate casual dining area and a grab and go dining option.

During November 2008, we opened our 33,000-square-foot slot facility at Fair Grounds, which operates over 600 slot machines. The facility includes a 180-seat buffet dining area, two additional eateries, a bar adjacent to the gaming floor, a renovated simulcast facility and other amenities for gaming and pari-mutuel wagering patrons.

VSI is the operator of more than 800 video poker machines at nine OTBs operated by Fair Grounds.

We intend to continue to pursue expanded gaming opportunities with the goal of broadening our market, thereby increasing attendance, gaming revenues and pari-mutuel handle.

G. Information Services

We own and maintain one of the world s largest computerized databases of pedigree and racing information for the thoroughbred horse industry. We provide special reports, statistical information, handicapping information, pedigrees, and other data to organizations, publications and individuals within the thoroughbred industry. This service is accessible through the internet at www.brisnet.com. In addition, many of the handicapping products are available at our ADW site, www.twinspires.com.

H. Sources of Revenue

Gaming revenues are primarily generated from slot machines, video poker, poker card room and table games. Our pari-mutuel revenues include commissions on pari-mutuel wagering at our racetracks, TwinSpires and OTBs, plus simulcast host fees earned from other wagering sites and source market fees generated from contracts with ADW businesses. In addition to the commissions earned on pari-mutuel wagering, we earn pari-mutuel related streams of revenues from sources that are not related to wagering at our facilities. These other revenues are primarily derived from statutory and/or regulatory requirements in some of the states where our facilities are located and can fluctuate materially year-to-year. Other operating revenues are primarily generated from admissions, sponsorships, licensing rights and broadcast fees, fees for alternative uses of our facilities, concessions, lease income, information services and other sources.

Financial information about our segments required by this Item is incorporated by reference from the information contained in the Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Table of Contents**I. Licenses and Live Race Dates****Horseracing and Pari-Mutuel Wagering**

Horseracing is a highly regulated industry. In the U.S., individual states control the operations of racetracks located within their respective jurisdictions with the intent of, among other things, protecting the public from unfair and illegal gambling practices, generating tax revenue, licensing racetracks and operators and preventing organized crime from being involved in the industry. Although the specific form may vary, states that regulate horseracing generally do so through a horseracing commission or other gambling regulatory authority. In general, regulatory authorities perform background checks on all racetrack owners prior to granting them the necessary operating licenses. Horse owners, trainers, jockeys, drivers, stewards, judges and backstretch personnel are also subject to licensing by governmental authorities. State regulation of horse races extends to virtually every aspect of racing and usually extends to details such as the presence and placement of specific race officials, including timers, placing judges, starters and patrol judges. We currently satisfy the applicable licensing requirements of the racing and gambling regulatory authorities in each state where we maintain racetracks and/or carry on business, including the Florida Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering (DPW), the Illinois Racing Board (IRB), the Kentucky Horse Racing Commission (KHRC), the Louisiana State Racing Commission (LSRC) and the Oregon Racing Commission (ORC).

In the United States, interstate pari-mutuel wagering on horseracing is subject to the federal Interstate Horseracing Act of 1978 (IHA) and its amendment in 2000. As a result of this statute, racetracks can commingle wagers from different racetracks and wagering facilities and broadcast horseracing events to other licensed establishments.

The following table is a summary of our expected 2011 and actual 2010 live thoroughbred racing dates and the number of live racing days for each of our four racetracks. Racing dates are generally approved annually by the respective state racing authorities:

Racetrack	2011		2010	
	Racing Dates	# of Days	Racing Dates	# of Days
Churchill Downs				
Spring Meet	April 30 - July 4	39	April 24 - July 4	42
Fall Meet	Oct. 30 - Nov. 27	21 ⁽¹⁾	Oct. 31 - Nov. 28	21 ⁽¹⁾
		60		63
Calder Race Course				
Calder Meet	April 25 - Sept. 30	101	April 24 - Oct. 20	101
Tropical Meet 09/10			Jan. 1 - Jan. 2	2
Tropical Meet 10/11	Jan. 1 - Jan. 4	4	Oct. 21 - Dec. 31	48
Tropical Meet	Oct. 1 - Dec. 2	45		
		150		151
Arlington Park	May 6 - Sept. 25	86	April 29 - Sept. 26	91
Fair Grounds				
Winter Meet 09/10			Jan. 1 - March 28	53
Winter Meet 10/11	Jan. 1 - March 27	59	Nov. 25 - Dec. 31	26
Winter Meet 11/12	Nov. 24 - Dec. 31	26		
		85		79

(1) 2011 and 2010 racing dates of Churchill Downs includes two days related to hosting the Breeders' Cup.

Table of Contents

Kentucky's racetracks, including Churchill Downs, are subject to the licensing and regulation of the KHRC. The KHRC is responsible for overseeing horseracing and regulating the state equine industry. Licenses to conduct live thoroughbred racing meets and to participate in simulcasting are approved annually by the KHRC based upon applications submitted by the racetracks in Kentucky. To some extent, Churchill Downs competes with other racetracks in Kentucky for the award of racing dates, however, the KHRC 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.

In Florida, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the 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 issues annual licenses for thoroughbred, standardbred and quarter horseraces but does not approve the specific live race days.

Calder may face direct competition from other Florida racetracks, including Miami-area racetracks, and host more or fewer live racing dates in the future. In recent years, Calder has elected to conduct fewer days of live racing in order to increase purses and maximize the quality of the racing product. On February 28, 2011, Calder filed its race dates request for the 2011-2012 racing season as part of its final dates submission to the Florida DPW. Upon completion of the 2010-2011 racing season, with live horseracing from April 25, 2011 through June 30, 2011, Calder's 2011-2012 request calls for live racing from July 1, 2011 through December 2, 2011, and from April 9, 2012 through June 30, 2012. Despite one less month of horseracing, Calder plans to conduct approximately the same number race dates in 2011, as compared to 2010.

In Illinois, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the IRB. Generally, there is no substantial change from year to year in the number of racing dates awarded to each racetrack.

In Louisiana, licenses to conduct live thoroughbred racing and to participate in simulcast wagering are approved by the LSRC. The LSRC is responsible for overseeing the awarding of licenses for the conduct of live racing meets, the conduct of thoroughbred horseracing, the types of wagering which may be offered by pari-mutuel facilities and the disposition of revenue generated from wagering. Off-track wagering is also regulated by the LSRC. Louisiana law requires live racing at a licensed racetrack for at least 80 days over a 20 week period each year to maintain the license and to conduct gaming.

Additionally, with the addition of slot machines at Fair Grounds, Louisiana law requires live quarter horseracing to be conducted at the racetrack. We conducted ten days of quarter horseracing in 2010 and plan to offer ten days of quarter horseracing during 2011.

TwinSpires accepts wagers in the state of Oregon where it operates under a multi-jurisdictional simulcasting and interactive wagering totalizator hub license issued by the ORC and in accordance with Oregon law. TwinSpires also holds ADW licenses in certain other states such as California, Illinois, Idaho, Maryland, Virginia and Washington. Changes in the form of new legislation or regulatory activity at the state or federal level could adversely impact the operations, success or growth of our ADW business.

The total number of days on which each racetrack conducts live thoroughbred racing fluctuates annually according to each calendar year and the determination of applicable regulatory activities. A substantial change in the allocation of live racing days at any of our four racetracks could significantly impact our operations and earnings in future years.

Table of Contents

Gaming

On January 29, 2008, residents of Miami-Dade County passed a referendum allowing Calder to operate up to 2,000 slot machines. The enabling legislation required the DPW to promulgate regulations regarding the licensure and regulation of slot machine operators. The DPW adopted these rules on June 25, 2006. On January 22, 2010, a 104,000 square-foot gaming facility adjacent to Calder featuring over 1,200 slot machines commenced operations.

The manufacture, distribution, servicing and operation of video draw poker devices in Louisiana are subject to the Louisiana Video Draw Poker Devices Control Law and the rules and regulations promulgated thereunder. The manufacture, distribution, servicing and operation of video poker devices and slot machines are maintained by a single gaming control board for the regulation of gaming in Louisiana. This board, created on May 1, 1996, is called the Louisiana Gaming Control Board (the Louisiana Board) and oversees all licensing for all forms of legalized gaming in Louisiana (including all regulatory enforcement and supervisory authority that exists in the state as to gaming on Native American lands). The Video Gaming Division and the Slots Gaming Division of the Gaming Enforcement Section of the Office of the State Police within the Department of Public Safety and Corrections (the Division) performs the investigative functions for the Louisiana Board for video poker and slot gaming. The laws and regulations of Louisiana are based on policies of maintaining the health, welfare and safety of the general public and protecting the video gaming industry from elements of organized crime, illegal gambling activities and other harmful elements, as well as protecting the public from illegal and unscrupulous gaming to ensure the fair play of devices. The Louisiana Board also regulates slot machine gaming at racetrack facilities pursuant to the Louisiana Pari-Mutuel Live Racing Facility Economic Redevelopment and Gaming Control Act. In addition, the LSRC also issues licenses required for Fair Grounds to operate slot machines at the racetrack and video poker devices at its OTBs.

The Mississippi Gaming Control Act and regulations issued under such authority govern the conduct of casino gaming in Mississippi. The Mississippi Gaming Commission (MGC) is charged with the enforcement of the Mississippi Gaming Control Act and supervises and licenses gaming operators located in Mississippi, including Harlow s.

J. Competition

We operate in a highly competitive industry with a large number of participants, some of which have financial and other resources that are greater than ours. The industry faces competition from a variety of sources for discretionary consumer spending including spectator sports and other entertainment and gaming options. Competitive gaming activities include traditional and Native American casinos, video lottery terminals, state-sponsored lotteries and other forms of legalized gaming in the U.S. and other jurisdictions. Additionally, web-based interactive gaming and wagering, both legal and illegal, is growing rapidly and affecting competition in our industry. We anticipate competition in this area will become more intense as new web-based ventures enter the industry.

Legalized gaming is currently permitted in various forms in many U.S. states and Canada. Other jurisdictions could legalize gaming in the future, and established gaming jurisdictions could award additional gaming licenses or permit the expansion of existing gaming operations. If additional gaming opportunities become available near our racing or gaming operations, such gaming opportunities could have a material, adverse impact on our business, financial condition and results of operations.

All of our racetracks face competition in the simulcast market. Approximately 46,000 thoroughbred horse races are conducted annually in the U.S. Of these races, we host approximately 3,800 races each year, or around eight percent of the total. As a content provider, we compete for wagering dollars in the simulcast market with other racetracks conducting races at or near the same times as our races. As a racetrack operator, we also compete for horses with other racetracks running live racing meets at or near the same time as our races. In recent years, this

Table of Contents

competition has increased as more states legalize gaming, allowing slot machines at racetracks with mandatory purse contributions. Over 85 percent of pari-mutuel handle is bet at off-track locations, either at other racetracks, OTBs, casinos, or through ADW channels. As a content distributor, we compete for these dollars to be wagered at our racetracks, OTBs and via our ADW business.

Louisville, Kentucky

Churchill Downs faces competition from freestanding casinos and racetracks which are combined with casinos (racinos) in neighboring states. Currently, three Indiana riverboat casinos compete for customers in the Louisville market. These casinos include Horseshoe Indiana, located in Elizabeth, Indiana, Belterra, a Pinnacle Entertainment casino located between Louisville and Cincinnati and the resort casino at French Lick, located about 60 miles northwest of Louisville. Additionally, Hoosier Park operates 2,000 slot machines, and Indiana Downs operates 1,900 slot machines. This has resulted in increased purses at those Indiana racetracks.

During 2009, the Ohio legislature and governor took actions toward the implementation of video lottery terminals at Ohio's racetracks, and Ohio voters passed a referendum to legalize land-based, free-standing casinos in Cincinnati, Columbus, Cleveland and Toledo. We believe that the potential expansion of gaming at Ohio racetracks could provide a competitive advantage to those racetracks and may enable Ohio racetracks to increase their purses. On January 17, 2011, the Mahoning Valley Development Group (Mahoning Valley) announced plans for a \$300 million project in the Youngstown, Ohio area. The proposal calls for a thoroughbred racetrack, hotel, golf course, retail and entertainment facilities.

Given the proximity of Ohio to Kentucky, these developments may result in Ohio racetracks attracting horses that would otherwise race at Kentucky racetracks, including Churchill Downs, thus negatively affecting the number of starters and purse size which, in turn, may have a negative effect on handle. In addition, we believe the opening of four land-based, free-standing casinos in Ohio may likewise have a material, adverse impact on our business, financial condition and results of operations.

Miami, Florida

Calder is surrounded by competitors for consumers' discretionary income. Calder competes with Gulfstream Park for thoroughbred race fans in the Miami area. This direct competition may adversely and materially impact our business, financial condition and results of operations.

On January 22, 2010, Calder Casino commenced operations and features approximately 1,200 slot machines. This gaming operation competes with three established casinos in Broward County just to the north of Miami-Dade County. We also face competition from Native American casinos, such as the Seminole Hard Rock facility, and popular gambling cruises-to-nowhere. Due to the high tax rates in Florida for pari-mutuel gaming facilities, Native American casinos, which are not taxed at the same rates, are generally able to spend more money marketing their facilities to consumers.

Florida legislators continue to debate the expansion of Florida gaming to include Las Vegas-style destination resort casinos. Such casinos may be subject to taxation rates lower than the current pari-mutuel taxation structure. Should such legislation be enacted, it could have a material, adverse impact on our business, financial condition and results of operations.

Chicago, Illinois

Arlington Park competes in the Chicago market against a variety of entertainment options. In addition to other racetracks in the area such as Hawthorne Park and Maywood Park, there are ten riverboat casino operations that draw from the Chicago market. The closest of these casinos is the Grand Victoria Casino in Elgin, Illinois, which has the highest wagering activity of all the casinos that compete in the Chicago market. Additionally, Native American gaming operations in Wisconsin may affect Arlington Park. A new casino, closer to Arlington Park, is expected to open in mid-2011 in Des Plaines, Illinois.

Table of Contents

New Orleans, Louisiana

Fair Grounds competes in the New Orleans area with two riverboat casinos and one land-based casino. Our slot facility houses over 600 slot machines. Harrah's land-based casino is the largest and closest competitor to Fair Grounds. Fair Grounds also faces significant gambling competition along the Mississippi Gulf Coast. Fair Grounds also competes with video poker operations located at various OTBs, truck stops and restaurants in the area.

Greenville, Mississippi

Harlow's competes in Mississippi with a variety of riverboat and land-based casinos. Our principal local competitors are Lighthouse and Jubilee casinos in Greenville. Harlow's also faces regional competition from a casino in Lula, Mississippi and from two locations in Arkansas. Both Arkansas locations offer pari-mutuel wagering on live and simulcast racing and other electronic games of skill such as blackjack, video poker, and electronic roulette. In addition, Historical Racing machines (HRM) are offered at one of the Arkansas locations.

From time to time, potential competitors have proposed the development of additional casinos. The Mississippi Gaming Control Act does not limit the number of licenses that may be granted, and there are a number of additional sites located in the Gulf Coast region that are in various stages of development. Any significant licensure could have a material, adverse impact on our business, financial condition and results of operations.

Advance Deposit Wagering

TwinSpires competes with other ADW businesses for both customers and racing content, and TwinSpires also competes with online gaming sites. Our competitors include, but are not limited to, Betfair Limited d/b/a TVG, MI Development d/b/a XpressBet, Premier Turf Club, Lien Games, AmWest Entertainment, The New York Racing Association, Connecticut OTB, Penn National Gaming Inc. and Racing2Day LLC. We also own an information services data business that sells handicapping and pedigree information to wagering customers and horsemen in the industry. This data may give us a competitive advantage as we are able to provide promotional products to our ADW customers that other ADW businesses cannot provide. As a data provider, we compete with companies such as Equibase and the Daily Racing Form by selling handicapping data to wagering customers.

On June 2, 2010, we completed our acquisition of Youbet, an ADW business. Initially, Youbet and TwinSpires wagering platforms were operated independently, with separate internet websites and customer wagering support operations. On November 16, 2010, the Youbet customer wagering platform was integrated into TwinSpires which provided customers with the ability to utilize features from both operations at a single enhanced platform at Twinspires.com.

In response to increased competition from other gaming options, we continue to search for new sources of revenue. We are focused on increasing the core customer base and developing new customers through new technology, including the development of new ADW businesses, to increase the distribution of racing content, and through developing better identification of existing customers to increase revenues from existing sources. Finally, we continue to seek additional ways to draw new and existing customers to live racing venues. Each of the developments is highly dependent on the regulatory environment and legal developments within federal and individual state jurisdictions.

Totalizator Business

We acquired United Tote through our acquisition of Youbet on June 2, 2010. United Tote provides totalizator services which accumulate wagers, record sales, calculate payoffs and display wagering data in a secure manner

Table of Contents

to patrons who wager on our horseraces. Our competitors are primarily Sportech and AmTote International, Inc. Our competition outside of North America is more fragmented, with competition also being provided by several international and regional companies. United Tote competes primarily on the basis of the design, performance, reliability and pricing of its products and contract services.

In addition, United Tote has contracts to provide totalizator services to a significant number of North American racetracks, OTBs and other pari-mutuel wagering businesses. Its totalizator systems provide wagering data to the industry in a secure manner. Errors by United Tote technology or personnel may subject us to liabilities, including financial penalties under our totalizator service contracts, which could have a material, adverse impact on our business, financial condition and results of operations.

K. Legislative Changes

Federal

WTO

In 2003, the country of Antigua filed a formal complaint against the United States with the World Trade Organization (WTO), challenging the United States ability to enforce certain Federal gaming laws (Sections 1084, 1952 and 1955 of Title 18 of the United States Code known as the Wire Act, the Travel Act and the Illegal Gambling Business Act, respectively, and collectively the Acts) against foreign companies that were accepting Internet wagers from United States residents. At issue was whether the United States enforcement of the Acts against foreign companies violated the General Agreement on Trade in Services (GATS). In November 2004, a WTO panel ruled that the United States, as a signatory of GATS, could not enforce the Acts against foreign companies that were accepting Internet wagers from United States residents. The United States appealed the ruling and, in April 2005, the WTO s appellate body ruled that the United States had demonstrated that the Acts were measures necessary to protect public morals or maintain public order, but that the United States did not enforce the Acts consistently between domestic companies and foreign companies as required by GATS. The WTO s appellate body specifically referenced the Interstate Horseracing Act of 1978 (the IHA), which appeared to authorize domestic companies to accept Internet wagers on horseracing, as being inconsistent with the United States stated policy against Internet wagering. In arguments and briefs before the WTO s appellate body, the United States argued that the Acts, specifically the Wire Act, apply equally to domestic companies and foreign companies and the IHA does not create an exception for domestic companies to accept Internet wagering on horseracing. The WTO s appellate body did not rule on whether an exception for domestic U.S. companies was created under the IHA, but recommended that the WTO s Dispute Settlement Body request the United States to bring measures found to be inconsistent with GATS into conformity with its obligations under GATS. The United States was given until April 3, 2006, to bring its policies in line with the ruling, assuming it believed any changes were necessary. On April 10, 2006, the United States delegation to the WTO submitted a brief report to the Chairman of the Dispute Settlement Body (U.S. Report) stating that no changes are necessary to bring U.S. policies in line with the ruling. In support of its position, the United States delegation informed the Dispute Settlement Body that on April 5, 2006, the United States Department of Justice confirmed the United States Government position regarding remote wagering on horseracing in testimony before a subcommittee of the United States House of Representatives. According to the U.S. Report, in that testimony, the Department of Justice stated its view that regardless of the IHA, existing criminal statutes prohibit the interstate transmission of bets or wagers, including wagers on horseracing, and informed the subcommittee that it is currently undertaking a civil investigation relating to a potential violation of law regarding this activity. On January 25, 2007, the WTO compliance panel issued its interim finding in response to the U.S. Report and found that the United States has failed to comply with previous WTO rulings regarding restrictions on access to the U.S. Internet gaming market. On March 30, 2007, the final report was issued upholding all lower panel decisions. On May 4, 2007, the United States Trade Representative (the USTR) announced that it had initiated the formal process by the United States of withdrawing its GATS commitment to clarify an error that it had made in 1994 by including gambling services

Table of Contents

in its schedule of commitments. The USTR stated that the United States will use the WTO procedures for clarifying its commitments under the GATS. The USTR also stated that the United States intends to modify its services schedule by clearly defining gambling as an excluded commitment under the GATS. The result of withdrawal would be that the United States would not be obligated to provide foreign providers of gambling services access to the United States market. Under GATS, countries seeking to alter their service trade commitments must compensate trading partners that may potentially be negatively impacted by the change. The U.S. has announced that it compensated certain countries. At this time, the only remaining issue before the WTO appears to be appropriate compensation to affected members of the treaty. The U.S. Government has made offers of compensation to WTO members affected by the decision of the U.S. to rule out any market access commitments regarding cross-border gambling services. In December 2007, the WTO arbitrators awarded Antigua the right to impose sanctions against United States intellectual property, including copyrights, trademarks and patents, up to an annual amount of \$21.0 million. The arbitrators award is not subject to appeal under WTO rules. The USTR has made no specific statement regarding how this will impact interstate gambling in horseracing. One of the options available to Congress and the White House is to prohibit or restrict substantially the conduct of interstate simulcast wagering or advance deposit wagering. If the U.S. government elects to take such an approach (including through any action by the Department of Justice), it will have a material, adverse impact on our business, financial condition and results of operations.

Other Federal Legislation/Regulation

On October 13, 2006, President Bush signed into law The Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA). The UIGEA prohibits those involved in the business of betting or wagering from accepting any financial instrument, electronic or otherwise, for deposit that is intended to be utilized for unlawful Internet gambling. The UIGEA declares that nothing in the act may be construed to prohibit any activity allowed by the IHA. The UIGEA also contains a Sense of Congress, which explicitly states that it is not intended to criminalize any activity currently permitted by federal law. The Secretary of the Treasury was directed to promulgate regulations to enforce the provisions of the UIGEA within 270 days. The Secretary was further directed to ensure the regulations do not prohibit any activity which is excluded from the definition of unlawful internet gambling, including those activities legal under the IHA. On November 12, 2008, the Department of Treasury and the Federal Reserve Board issued final rules and regulations to implement the UIGEA which required compliance by December 1, 2009. Unfortunately, these rules and regulations did not prevent financial firms from blocking all internet gambling transactions even if such activity was legal and, in fact, at least one financial institution issued an initial policy that blocked all internet gambling transactions.

On November 28, 2009, the effective date of the UIGEA regulations was delayed until June 1, 2010. We worked diligently with the National Thoroughbred Racing Association and other interested parties including Visa, MasterCard, and the banking industry, to distinguish ADW businesses from unlawful internet gaming. In preparation for the June 1, 2010, deadline, Visa and MasterCard issued separate bulletins that provided a framework for legal internet gambling transactions. Consistent with the intent of the UIGEA regulations, the legal internet gaming exception included horseracing, lottery, and dog racing transactions. TwinSpire was able to meet the stringent requirements for legal internet gambling certifications by both MasterCard and Visa by the June 1, 2010, deadline. Subsequent to the closing of the Yobet acquisition, we worked to harmonize the certifications for Yobet and TwinSpire, and we are continuing to work with MasterCard, Visa and the banking industry to minimize the impact of UIGEA on our ADW businesses. Although TwinSpire and Yobet have been approved to offer internet gambling transactions under UIGEA by multiple credit card companies and financial institutions, the willingness of issuing banks to accept these transactions is uncertain. While we have not seen a significant increase in credit card declinations, we believe that issuing banks unwillingness to accept these transactions could have a material, adverse impact on our business, financial condition and results of operations.

The 111th Congress ended without significant action on internet gambling legislation. Proponents of legalized internet gambling have stated their intention to re-introduce legislation in the 112th Congress to license, regulate, and tax this activity. Representatives John Campbell (R-CA) and Barney Frank (D-MA) are expected to craft a

Table of Contents

bi-partisan bill that will face significant hurdles in a Republican-controlled House of Representatives. Several state legislatures such as New Jersey, California, Florida, and Iowa are debating proposals that would legalize intrastate internet poker. Should any of these proposals be signed into law, they could have a significant impact on the operations of our existing ADW business.

During May 2009, Representative Barney Frank (D-Mass.) introduced the Internet Gambling Regulation Consumer Protection & Enforcement Act of 2009 (HR 2267). HR 2267 is similar to legislation introduced by Representative Frank during the 110th Congress and would establish a federal regulatory and enforcement framework under which internet gambling operators could obtain licenses authorizing them to accept bets and wagers from individuals in the United States. Currently, HR 2267 has 65 co-sponsors. HR 2267 has been referred to the House Financial Services, Energy and Commerce, and Judiciary Committees for further review. The House Financial Services Committee held hearings on HR 2267 on December 3, 2009.

A second piece of legislation introduced by Representative Frank during May 2009 is the Reasonable Prudence in Regulation Act (HR 2266), which calls for a one-year delay in the date for compliance with regulations pursuant to the UIGEA, which was passed during 2006. Currently, HR 2266 has 54 co-sponsors. HR 2266 has been referred to the House Financial Services Committee for further review.

Florida

During 2010, the Florida legislature passed Senate Bill 622 (SB 622), which contained a new Tribal Compact. A provision of SB 622 made Chapter 2009-170, Laws of Florida, effective on July 1, 2010. As a result, the annual slots license fee was reduced to \$2.5 million on July 1, 2010, and an additional reduction to \$2.0 million was established that will be due July 1, 2011. Pursuant to the new Tribal Compact, which was approved by the Florida legislature and the Governor of Florida, the Seminole Tribe gained the exclusive right to have blackjack and other table games at three Broward County casinos and two other casinos in Immokalee and Tampa. All seven tribal casinos are able to continue operating Las Vegas-style slot machines. Other portions of Chapter 2009-170, Laws of Florida, purport to permit the operation of slot machines at quarter horse facilities in Miami-Dade County. In particular, Section 19, Chapter 2009-170, Laws of Florida, purports to permit Hialeah Race Course, located approximately 12 miles from Calder, to open as a quarter horse facility and operate slot machines after two consecutive years of quarter horseracing. On June 18, 2010, in a lawsuit styled *Calder Race Course, Inc., vs. Florida Department of Business and Professional Regulation and South Florida Racing Association, LLC*, (Case No. 2010-CA-2132), Calder challenged the provisions of Section 19 of Chapter 2009-170, Laws of Florida, alleging that Section 19 violates Article X, Section 23, of the Florida Constitution when it expands the limits set in the constitution for slot machine licenses. The Leon County Circuit Court held the statute to be valid and that decision is presently on appeal to the Florida First District Court of Appeal.

On July 21, 2010, the Florida Quarter Horse Track Association, Inc. (the FQHTA) filed a lawsuit styled *Florida Horse Track Association, Inc. vs. State of Florida, Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering, Calder Race Course, Inc. and Tropical Park, Inc.*, (Case No. 2010 CA 2519) in the Circuit Court of the Second Judicial Circuit in and for Leon County, Florida. The FQHTA alleges that: 1) the Florida statute that authorizes the issuance of the original thoroughbred racing permit to Calder in 1969 was an unconstitutional special law under the Florida constitution, and 2) the arrangement between Tropical Park and Calder under which Tropical Park conducts its race meets at Calder is not authorized by the Florida statutes. The case is pending in Leon County, Florida. On March 2, 2011, our Motion to Dismiss filed jointly by Calder and the Division of Pari-Mutuel Wagering was granted.

On February 14, 2011, Hialeah Race Course (Hialeah) filed a lawsuit styled *Hialeah Racing Association, South Florida Racing Association, LLC and Bal Bay Realty, LTD vs. West Flagler Associates, LTD, Calder Race Course, Inc. and Tropical Park, Inc.*, (Case No. 11-04617 CA24) in the Circuit Court of the 11th Judicial Circuit in and for Miami-Dade County, Florida. The plaintiffs allege that the defendants, including Calder and Tropical Park, have engaged in unfair methods of competition and have committed unfair acts and practices by, among

Table of Contents

other things, engaging in concerted actions designated to prevent the enactment of legislation to regulate thoroughbred racing dates, coordinating the selection of racing dates among Calder, Tropical Park and Gulfstream Park, soliciting the revocation of Hialeah's racing permit which prevented Hialeah from operating, participating in the drafting of a Florida slots amendment to ensure that Hialeah was excluded from obtaining the opportunity to conduct gaming under a constitutional amendment on slot machines and instituting litigation challenging the validity of eligible facilities legislation in an effort to prevent the operation of slot machines at Hialeah. The plaintiffs have demanded unspecified damages. We filed a motion to dismiss on March 14, 2011.

Florida legislators continue to debate the expansion of Florida gaming to include Las Vegas-style destination resort casinos. Such casinos may be subject to taxation rates lower than the current pari-mutuel taxation structure. Should such legislation be enacted, it could have a material, adverse impact on our business, financial condition and results of operations.

Kentucky

On July 20, 2010, the KHRC approved a change in state regulations that would allow racetracks to offer pari-mutuel HRMs, which base their payouts on the results of previously-run races at racetracks across North America. Portions of previously-run-races, the length of which is chosen by the player, can be viewed, and winning combinations are presented via video terminals through which the player may place wagers in the pari-mutuel betting pools available via the HRMs. Despite the positive vote from the KHRC, there are questions with regard to the viability of the HRMs in a competitive wagering market such as Louisville and the legality of regulations enacted. We will not make any decisions on whether to pursue HRMs until both of these questions are answered. A declaratory judgment action was filed in Franklin Circuit Court on behalf of the Commonwealth of Kentucky and all Kentucky racetracks to ensure proper legal authority. The Franklin Circuit Court entered a declaratory judgment upholding the regulations in their entirety. The intervening adverse party filed a notice of appeal, and the KHRC and the racetracks have filed a motion to transfer that appeal directly to the Supreme Court of Kentucky. On February 28, 2011, the adverse party filed a motion to deny the transfer of the appeal to the Supreme Court of Kentucky. Currently, only Oaklawn Park Racetrack, in Arkansas, offers the HRMs.

The KHRC is also considering various ways they believe will improve the safety and integrity of racing. For example, the KHRC in the past has considered adopting a rule that would require Kentucky racetracks, including Churchill Downs, to cease accepting wagers when the horses are beginning to be loaded in the starting gate (commonly referred to as zero minutes to post). Furthermore, alternative ideas have been introduced to require ADWs and OTBs to cease accepting wagers at a designated post time and allow continued wagering at the racetracks until the starting gate opens and the race begins. Either change, if adopted by the KHRC, would reduce the time available to wager on each race and could reduce handle. We cannot predict whether the KHRC will adopt either rule; however, adoption of either rule could have a material, adverse impact on our business, financial condition and results of operations.

The Kentucky General Assembly convened for the short 2011 session, and the Kentucky House passed legislation that will allow the state to join an interstate horseracing compact. The bill will be sent to the Governor of Kentucky who has indicated that he supports the legislation. The legislation proposes that the interstate horseracing compact would be empowered to pass regulations that would become law in the Commonwealth of Kentucky if ratified/adopted by the KHRC. At this point, we do not know how this legislation, if enacted, would affect our racing business; however, we continue to monitor this bill as it moves through the legislative process.

Legislation was introduced on February 8, 2011, to clarify state regulatory authority over ADW companies. The legislation seeks to provide jurisdiction over wagering made within the Commonwealth of Kentucky. Prior legislation purported to provide jurisdiction over wagers made on Kentucky product regardless of which jurisdiction the wager was located. We anticipate there will be discussion regarding the appropriate tax level for ADW wagering as well.

Table of Contents

Illinois

Illinois State Bills

On August 25, 2009, Governor Quinn signed legislation to clarify ambiguity with respect to advance deposit wagering (SB 1298), including requiring a 1.5% pari-mutuel tax on wagers made through an ADW business by Illinois residents, with an additional 0.25% pari-mutuel tax capped at \$250,000 for all ADW wagering in the aggregate. On October 13, 2009, in accordance with SB 1298, the IRB issued a license to Churchill Downs Technology Initiatives Company to conduct advanced deposit wagering in Illinois. On January 26, 2010, the IRB approved the initiation of rule making to limit the interstate host fee charged to an Illinois-licensed ADW business to no more than 5%. On July 12, 2010, the IRB issued Rule 325.60, which limits the amount of host fees paid by ADW businesses to racetracks outside of Illinois to 5% of handle. On August 31, 2010, the IRB amended Rule 325.60 to set the maximum host fees paid by ADW businesses to racetracks outside of Illinois to 9% of handle. From July 12 to September 1, 2010 TwinSpires and Yobet did not offer certain racetracks content to Illinois residents through their wagering platforms. TwinSpires and Yobet are currently offering all their racetracks content to Illinois residents.

In addition, during the spring 2009 legislative session, the Illinois General Assembly passed, and the governor signed, HB 255, which increases sales taxes on candy, grooming products, certain beverages, liquor, beer, license plates and driver s license fees for the purpose of funding state capital spending initiatives. HB 255 also allows retail liquor establishments, truck stops and fraternal organizations to operate up to five video poker machines, for which tax monies generated from this gaming would also be used for the state capital spending initiatives. Racetracks and OTBs are excluded from the operation of these video poker machines. While the expansion of video poker throughout Illinois may have a negative impact on other current forms of legalized gaming, including pari-mutuel wagering on horseracing, over 60 local governments in Illinois have recently taken action to ban video poker in their communities. On January 26, 2011, a state appellate court ruled that the law was unconstitutional in that it violated the single subject rule in the state constitution. The Attorney General is seeking the reversal of the Appellate Court in a filing with the state Supreme Court.

On February 23, 2011, House Bill 3107 was introduced which would authorize Arlington Park to operate up to 1,200 slot or video poker machines and would also authorize Quad City Downs, owned by Arlington Park, to operate up to 900 slot or video poker machines. Existing casinos would be eligible to increase the number of slot and video poker machines from the current limit of 1,200 machines to 2,000 machines. Under House Bill 3107, gaming taxes would be established at a graduated rate that varies from 10% of gross gaming revenues to 40% of gross gaming revenues depending on the level of gross gaming revenues. At this point, we do not know how this legislation, if enacted, would affect our racing and gaming operations.

Horse Racing Equity Trust Fund

Under legislation enacted in 1999, the Illinois Horse Racing Equity Fund is scheduled to receive up to 15% of adjusted gross receipts earned on an annual basis from the tenth riverboat casino license granted in Illinois. The funds will be distributed to racetracks in Illinois and may be utilized for purses as well as racetrack discretionary spending. During December 2008, the Illinois Gaming Board awarded the tenth license to Midwest Gaming LLC to operate a casino in Des Plaines, Illinois. This license may become operable as early as mid-2011. Arlington Park will be entitled to receive 15% of the total funds paid annually by Midwest Gaming LLC into this fund. It is currently not expected that any such amounts would be available for payment to Arlington Park prior to 2011. Moreover, the amount of such payments, if any, cannot be determined at this time.

During 2006, the Illinois General Assembly enacted Public Act 94-804, which created the Horse Racing Equity Trust Fund (HRE Trust Fund). The HRE Trust Fund is to be funded by a 3% surcharge on revenues of Illinois riverboat casinos that meet a certain revenue threshold. Approximately 60% of the funds are to be used for horsemen s purses (57% for thoroughbred meets and 43% for standardbred meets). The remaining monies paid to the HRE Trust Fund are to be distributed to Illinois organizational licensees, pursuant to percentage

Table of Contents

allocations set forth in Public Act 94-804, for the purpose of improving, maintaining, marketing and operating their racetracks. Such amounts also may be used for backstretch services and capital improvements. Public Act 94-804 expired after two years.

In an effort to prevent implementation of Public Act 94-804, the four Illinois riverboat casinos that met the revenue threshold, and therefore were required to contribute to the HRE Trust Fund, filed a complaint on May 30, 2006, in the Circuit Court of Will County, Illinois (Empress Casino Joliet Corp. v. Giannoulis, 06 CH 1294). The complaint alleged that Public Act 94-804 is unconstitutional and was filed against the State Treasurer and the IRB to enjoin the imposition and collection of the 3% surcharge from the riverboat casinos. The trial court ruled in April 2007 that Public Act 94-804 was unconstitutional. The Attorney General appealed to the Illinois Supreme Court, which reversed the ruling of the trial court (Empress Casino Joliet Corp. v. Giannoulis, 231 Ill.2d 62 (2008)). The riverboat casinos requested certiorari from the U.S. Supreme Court and filed a petition to stay payment until final determination was made by that court. On June 8, 2009, the U.S. Supreme Court denied certiorari.

On June 10, 2009, the riverboat casinos filed a petition with the Circuit Court of Will County, requesting that the judgment be re-opened and that Public Act 94-804 be held unconstitutional on new grounds (Empress Casino Joliet Corp. v. Giannoulis, 06 CH 1294). Arlington Park intervened on June 26, 2009. The trial court denied the petition, and the riverboat casinos appealed to the Appellate Court of Illinois, Third District. The riverboat casinos subsequently moved to voluntarily dismiss that appeal.

The riverboats had paid all monies required under Public Act 94-804 into a special protest fund account, which the Will County trial court kept in place via a preliminary injunction to prevent the monies from being transferred to the HRE Trust Fund. After the trial court denied the riverboat casinos' petition to re-open the judgment, the trial court ordered the Treasurer to move the funds to the HRE Trust Fund. The Appellate Court of Illinois, Third District, then refused the riverboat casinos' request to keep the funds in the special protest fund account. The funds were moved to the HRE Trust Fund and distributed to the racetracks, including Arlington Park, in December 2009. The Will County trial court ordered the State of Illinois to pay interest on the funds pursuant to Public Act 94-804, for the period between the date the riverboat paid those funds to the State and the date the State distributed the funds to the racetracks. The State appealed the trial court's order and on January 21, 2011, the Illinois Appellate Court, Third District, reversed that order, and found that the State was not required to pay such interest. On February 10, 2011, the Illinois racetracks filed a petition for rehearing in the Third District which was denied on February 23, 2011. The racetracks have until March 30, 2011 to petition the Illinois Supreme Court for review.

During November 2008, the Illinois General Assembly passed Public Act 95-1008 to extend Public Act 94-804 for a period of three years beginning December 12, 2008. In an effort to prevent implementation of Public Act 95-1008, the riverboat casinos filed a complaint on January 8, 2009, in the Circuit Court of Will County, Illinois (Empress Casino Joliet Corp. v. Giannoulis, et al., 09 CH 122). The complaint alleged that Public Act 95-1008 is unconstitutional and was filed against the State Treasurer and the IRB to enjoin the imposition and collection of the 3% surcharge from the riverboat casinos. The trial court dismissed the complaint on November 19, 2009. The Appellate Court of Illinois, Third District, affirmed the trial court's dismissal of the complaint on January 27, 2011. The riverboat casinos petitioned the Illinois Supreme Court for leave to appeal on March 3, 2011. The riverboat casinos have paid all monies required under Public Act 95-1008 into a special protest fund account, which the trial court has retained via a preliminary injunction. The riverboat casinos moved to stay dissolution of the injunction pending their appeal of the trial court's dismissal order. The trial court denied the stay, as did the Appellate Court of Illinois on April 8, 2010. As of the date of the filing of this Annual Report on Form 10-K, we received \$40.5 million from the HRE Trust Fund, which is currently being held in an escrow account held by Arlington Park. Of the total monies we received, we anticipate \$17.0 million will be retained by Arlington Park and \$23.5 million will be paid into Arlington Park's purse account.

Arlington Park filed an administrative appeal in the Circuit Court of Cook County on August 18, 2009 (*Arlington Park Racecourse LLC v. Illinois Racing Board*, 09 CH 28774), challenging the Illinois Racing Board's (IRB)

Table of Contents

allocation of funds paid to organization licensees out of the HRE Trust Fund based upon handle generated by certain ineligible licensees, as contrary to the language of the statute. Defendant Hawthorne Racecourse LLC moved for dismissal of the administrative appeal while challenging subject matter jurisdiction and this challenge was rejected by the Circuit Court on April 16, 2010. The Circuit Court affirmed the decision of the Illinois Racing Board on November 10, 2010, and Arlington has appealed this ruling to the Illinois First District Court of Appeals. Hawthorne Racecourse filed a separate administrative appeal on June 11, 2010, (*Hawthorne Racecourse, Inc. v. Illinois Racing Board et. al.*, Case No. 10 CH 24439), challenging the IRB's unwillingness to hold another meeting in 2010 to reconstrue the statutory language in Public Act 94-1008 with respect to distributions. Hawthorne filed its opening brief in this appeal on January 28, 2011. The monies received by Arlington Park are subject to a federal court injunction and thus remain in escrow pending the appeal of the federal lawsuit.

In addition, on June 12, 2009, the riverboat casinos filed a lawsuit in the United States District Court for the Northern District of Illinois, Eastern Division, against former Governor Rod Blagojevich, Friends of Blagojevich and others, including Arlington Park (the Federal Lawsuit) (*Empress Casino Joliet Corp. v. Blagojevich*, 2009 CV 03585). While the riverboat casinos alleged violations of the Racketeer Influenced and Corrupt Organizations (RICO) Act against certain of the defendants, Arlington Park was not named in the RICO count, but rather was named solely in a count requesting that the monies paid by the riverboat casinos pursuant to Public Acts 94-804 and 95-1008 be held in a constructive trust for the riverboat casinos' benefit and ultimately returned to the casinos. The defendants moved to dismiss the Complaint, and the plaintiffs moved for a preliminary injunction seeking to prevent distribution of the disputed funds to the racetrack defendants, including Arlington Park. On November 20, 2009, the trial court entered a temporary restraining order requiring that any funds received by the racetrack defendants be placed in a special interest-bearing escrow account separate and apart from other monies. On December 7, 2009, the trial court dismissed the constructive trust count of the complaint and denied the plaintiffs' motion for a preliminary injunction. Plaintiffs appealed, and the court of appeals stayed dissolution of the temporary restraining order pending the appeal. On March 2, 2011, a three member panel of the Seventh Circuit Court of Appeals reversed the trial court's dismissal.

On June 25, 2009, the riverboat casinos filed a lawsuit in the Cook County Circuit Court, Chancery Division, against the Treasurer of the State of Illinois, requesting the court to enjoin the Treasurer from disbursing the monies in the special protest fund accounts pending final resolution of the Federal Lawsuit (*Empress Casino Joliet Corp. v. Giannoulis*, 09 CH 20751). Arlington Park intervened in this lawsuit on July 16, 2009. The trial court dismissed the suit, and the riverboat casinos' appeal has been dismissed.

Purse Recapture

Pursuant to the Illinois Horse Racing Act, Arlington Park and all other Illinois racetracks are permitted to receive a payment commonly known as purse recapture. Generally, in any year that wagering on Illinois horse races at Arlington Park is less than 75% of wagering both in Illinois and at Arlington Park on Illinois horse races in 1994, Arlington Park is permitted to receive 2% of the difference in wagering in the subsequent year. The payment is funded from the Arlington Park purse account. Under the Illinois Horse Racing Act, the Arlington Park purse account is to be repaid via an appropriation by the Illinois General Assembly from the Illinois General Revenue Fund. However, this appropriation has not been made since 2001. Subsequently, Illinois horsemen unsuccessfully petitioned the IRB to prevent Illinois racetracks from receiving this payment in any year that the Illinois General Assembly did not appropriate the repayment to the racetrack's purse accounts from the General Revenue Fund. Further, the Illinois horsemen filed lawsuits seeking, among other things, to block payment to Illinois racetracks, as well as to recover the 2002 and 2003 amounts already paid to the Illinois racetracks. These lawsuits filed by the Illinois horsemen challenging the 2002 and 2003 reimbursements have been resolved in favor of Arlington Park and the other Illinois racetracks. Several bills were filed in the 2003, 2004, 2005 and 2009 sessions of the Illinois legislature that, in part, would eliminate the statutory right of Arlington Park and the other Illinois racetracks to continue to receive this payment. None of these bills passed. Since the statute remains in effect, Arlington Park continues to receive the recapture payment from the purse account. If Arlington Park loses the

Table of Contents

statutory right to receive this payment, there could be a material, adverse impact on our business, financial condition and results of operations.

Host Days

During January, February and a portion of March each year, when there is no live racing in Illinois, the IRB designates a thoroughbred racetrack as the host track in Illinois, for which the host track receives a higher percentage of earnings from pari-mutuel activity throughout Illinois. The IRB appointed Arlington Park the host track in Illinois during January and February of 2011 for 41 days, which is an increase of 1 day compared to the same period of 2010. Arlington Park's future designation as the host track is subject to the annual designation by the IRB. A change in the number of days that Arlington Park is designated host track could have a material, adverse impact on our business, financial condition and results of operations.

Louisiana

A resolution calling for a study of the horseracing industry, Senate Concurrent Resolution 130, sponsored by Senator Nick Gautreaux, passed the Louisiana Senate. The resolution urges and requests a joint committee of the Senate and House to meet during the interim to study and determine whether the Louisiana State Racing Commission is properly regulating the horseracing industry in Louisiana, whether the commission is meeting the stated legislative intent, policy, and purposes as prescribed by Louisiana law, and whether the commission is utilizing the best practices in performing its function. The resolution mandates that the joint committee submit a written report of its findings to the legislature prior to March 1, 2011.

Mississippi

Legislation was introduced to prohibit smoking in all enclosed facilities, including buildings and vehicles that are owned, leased or operated by the State of Mississippi or any agency or political subdivision therein. The legislation also prohibited smoking in all enclosed public places and places of employment, including casinos, restaurants and hotel rooms. The legislation set forth the procedure to report violators and established the penalty for each violation. On February 9, 2011, the Mississippi Senate passed a significantly limited version of the legislation that only prohibited smoking in government buildings, which is currently not permitted by existing state statute. The legislation is now in the House Public Welfare Committee where it awaits to be called upon by the Committee Chairman for vote.

California

On September 23, 2010, the governor of California signed a bill that approved exchange wagering on horseracing by California residents and on California racetracks. The bill does not allow exchange wagering before May 2012 but makes California the first state to approve this type of wagering. Exchange wagering differs from pari-mutuel wagering in that it allows customers to propose their own odds on certain types of wagers on horseracing, including betting that a horse may lose, which may be accepted by a second customer. Exchange wagering may have a negative impact on our current pari-mutuel operations, including our ADW business. Furthermore, California's approval of exchange wagering may set a precedent for other states to approve exchange wagering, creating additional risk of a negative impact on our pari-mutuel wagering business.

New Jersey

On January 31, 2011, the governor of New Jersey signed a bill that approved exchange betting on horseracing by New Jersey residents on New Jersey racetracks. Exchange wagering differs from pari-mutuel wagering in that it allows customers to propose their own odds on certain types of wagers on horseracing, which may be accepted by a second customer. Exchange wagering may have a negative impact on our current pari-mutuel operations, including our ADW business. In addition, the governor approved a second bill that would allow for single pool

Table of Contents

wagering. This wager combines all wagers of all bet types into one pool, but payouts are still determined by the amount of money bet on the winning horse or combination of horses.

As of the date of the filing of this Annual Report on Form 10-K, we do not know the impact that the ultimate outcome of these matters could have on our business, financial condition and results of operations.

L. Environmental Matters

It is not anticipated that we will have any material liability as a result of non-compliance with environmental laws with respect to any of our properties. Compliance with environmental laws has not materially affected our ability to develop and operate our properties, and we are not otherwise subject to any material compliance costs in connection with federal or state environmental laws.

M. Service Marks and Internet Properties

We hold numerous state and federal service mark registrations on specific names and designs in various categories including the entertainment business, apparel, paper goods, printed matter, housewares and glass. We license the use of these service marks and derive revenue from such license agreements.

N. Employees

As of December 31, 2010, we employed approximately 2,000 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 2010, average full-time and seasonal employment per pay period was approximately 3,800 individuals Company-wide.

O. Internet Access

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and other Securities and Exchange Commission (SEC) filings, and any amendments to those reports and any other filings that we file with or furnish to the SEC under the Securities Exchange Act of 1934 are made available free of charge on our website (www.churchilldownsincorporated.com) as soon as reasonably practicable after we electronically file the materials with the SEC and are also available at the SEC's website at www.sec.gov.

Table of Contents

ITEM 1A. RISK FACTORS

Risks Related to the Company

In addition to risks and uncertainties in the ordinary course of business that are common to all businesses, important factors that are specific to our industry and company could materially impact our future performance and results. The factors described below are the most significant risks that could materially impact our business, financial condition and results of operations.

General economic trends are unfavorable

The recent, severe economic downturn and adverse conditions in local, regional, national and global markets have negatively impacted our operations and will likely continue to do so in the near future. Although there is a growing confidence that the global economies have resumed growth following the recent economic crises, there remains risk that the recovery will be short-lived, that the recovery may not include the industries or markets in which we operate, or the downturn may resume. Additionally, our ability to respond to periods of economic contraction may be limited, as certain of our costs remain fixed or even increase, when revenues decline. Accordingly, any persistence of poor economic conditions, or further deterioration, could have a material, adverse impact on our business, financial condition and results of operations.

Our business is sensitive to reductions in consumers discretionary spending, which may result from the recent economic conditions, unemployment levels and other changes we cannot accurately predict

Demand for entertainment and leisure activities is sensitive to consumers disposable incomes, which have been adversely affected by recent economic conditions and the persistence of elevated levels of unemployment. Further declines in the residential real estate market, higher energy and transportation costs, changes in consumer confidence, increases in individual tax rates, and other factors that we cannot accurately predict may reduce disposable income of our customers. This could result in fewer patrons visiting our racetracks, gaming and wagering facilities and online wagering sites, and may impact our customers ability to wager with the same frequency and maintain their wagering level profiles. Decreases in consumer discretionary spending could affect us even if it occurs in other markets. For example, reduced wagering levels and profitability at racetracks from which we carry racing content could cause certain racetracks to cancel races or cease operations and therefore reduce the content we could provide to our customers. Accordingly, any significant loss of customers or decline in wagering could have a material adverse impact on our business, financial condition and results of operations.

We are vulnerable to additional or increased taxes and fees

We believe that the prospect of raising significant additional revenue through taxes and fees is one of the primary reasons that certain jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to the normal federal, state, provincial and local income taxes, and such taxes and fees may be increased at any time. From time to time, legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. Moreover, many states and municipalities, including ones in which we operate, are currently experiencing budgetary pressures that may make it more likely they would seek to impose additional taxes and fees on our operations. It is not possible to determine with certainty the likelihood of any such changes in tax laws or fee increases, or their administration; however, if enacted, such changes could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to identify and complete acquisition, expansion or divestiture projects on time, on budget or as planned

We expect to pursue expansion, acquisition and divestiture opportunities, and we regularly evaluate opportunities for development, including acquisitions or other strategic corporate transactions which may expand our business operations.

Table of Contents

We could face challenges in identifying development projects that fit our strategic objectives, identifying potential acquisition or divestiture candidates and/or development partners, finding buyers, negotiating projects on acceptable terms, and managing and integrating the acquisition or development projects. The integration of new operations and any other properties we may acquire or develop will require the dedication of management resources that may temporarily divert attention from our day-to-day business. The process of integrating new properties or projects may also interrupt the activities of those businesses, which could have a material, adverse impact on our business, financial condition and results of operations. We cannot assure that any new properties or developments will be completed or integrated successfully.

Management of new properties or business operations, especially those in new lines of business or different geographic areas, may require that we increase our managerial resources. We cannot assure that we will be able to manage the combined operations effectively or realize any of the anticipated benefits of our acquisitions or developments.

We may experience difficulty in integrating recent or future acquisitions into our operations

We have completed acquisition transactions in the past and we may pursue acquisitions from time to time in the future. The successful integration of newly acquired businesses, including our recent acquisitions of Youbet and Harlow s, into our operations has required and will continue to require the expenditure of substantial managerial, operating, financial and other resources and may also lead to a diversion of our attention from our ongoing business concerns. We may not be able to successfully integrate new businesses or realize projected revenue gains, cost savings and synergies in connection with those acquisitions on the timetable contemplated, if at all. Furthermore, the costs of integrating businesses we acquire could significantly impact our short-term operating results. These costs could include:

restructuring charges associated with the acquisitions;

non-recurring acquisition costs, including accounting and legal fees, investment banking fees and recognition of transaction-related costs or liabilities; and

costs of imposing financial and management controls (such as compliance with Section 404 of the Sarbanes-Oxley Act of 2002) and operating, administrative and information systems.

Although we perform financial, operational and legal diligence on the businesses we purchase, in light of the circumstances of each transaction, an unavoidable level of risk remains regarding the actual condition of these businesses and our ability to continue to operate them successfully and integrate them into our existing operations. In any acquisition we make, we face risks which include:

the risk that the acquired business may not further our business strategy or that we paid more than the business was worth;

the potential adverse impact on our relationships with partner companies or third-party providers of technology or products;

the possibility that we have acquired substantial undisclosed liabilities for which we may have no recourse against the sellers;

costs and complications in maintaining required regulatory approvals or obtaining further regulatory approvals necessary to implement the acquisition in accordance with our strategy;

the risks of acquiring businesses and/or entering markets in which we have limited or no prior experience;

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the potential loss of key employees or customers;

the possibility that we may be unable to retain or recruit managers with the necessary skills to manage the acquired businesses; and

changes to legal and regulatory guidelines, which may negatively affect acquisitions.

Table of Contents

If we are unsuccessful in overcoming these risks, it could have a material adverse impact on our business, financial condition and results of operations.

Any infringement by us on intellectual property rights of others could adversely affect our business, financial condition and results of operations or result in litigation

In the course of our business, we may become aware of potentially relevant patents or other intellectual property rights held by other parties. Many of our competitors as well as other companies and individuals have obtained, and may be expected to obtain in the future, patents or other intellectual property rights that concern products or services related to the types of products and services we currently offer or may plan to offer in the future. We evaluate the validity and applicability of these intellectual property rights and determine in each case whether we must negotiate licenses to incorporate or use the proprietary technologies in our products. Claims of intellectual property infringement may also require us to enter into costly royalty or license agreements. However, we may not be able to obtain royalty or license agreements on terms acceptable to us or at all. We also may be subject to significant damages or injunctions against the development and sale of our products and services.

Our results may be affected by the outcome of litigation within our industry and the protection and validity of our intellectual property rights. Any litigation regarding patents or other intellectual property could be costly and time consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved and the uncertainty of litigation surrounding it has the effect of increasing the risks associated with certain of our product offerings, particularly in the area of advance deposit wagering, or ADW. There can be no assurance that we would not become a party to litigation surrounding our ADW business or that such litigation would not cause us to suffer losses or disruption in our business strategy.

We depend on key personnel

Our continued success and our ability to maintain our competitive position is largely dependent upon, among other things, the skills and efforts of our senior executives and management team including Robert L. Evans, our President and Chief Executive Officer. Although we have entered into employment agreements with certain of our senior executives and key personnel, we cannot guarantee that these individuals will remain with us, and their retention is affected by the competitiveness of our terms of employment and our ability to compete effectively against other gaming companies. In addition, certain of our key employees are required to file applications with the gaming authorities in each of the jurisdictions in which we operate and are required to be licensed or found suitable by these gaming authorities. If the gaming authorities were to find a key employee unsuitable for licensing, we may be required to sever the employee relationship. Furthermore, the gaming authorities may require us to terminate the employment of any person who refuses to file appropriate applications. Either result could significantly impair our operations. Our inability to retain key personnel could have a material, adverse impact on our business, financial condition and results of operations.

Natural disasters could cause a significant and continued disruption to our operations

Natural disasters could interrupt our operations, damage our properties and reduce the number of customers who visit our facilities in the affected areas. For example, Harlow s, Fair Grounds and its related OTBs and Calder could all be adversely affected by flooding or hurricanes. While we maintain insurance coverage that may cover certain of the costs that we incur as a result of some natural disasters, our coverage is subject to deductibles, exclusions and limits on maximum benefits. There can be no assurance that we will be able to fully collect, if at all, on any claims resulting from extreme weather conditions or other disasters. If any of our properties are damaged or if their operations are disrupted or faced prolonged closure as a result of natural disasters in the future, or if natural disasters adversely impact general economic or other conditions in the areas in which our properties are located or from which they draw their patrons, the disruption could have a material, adverse impact on our business, financial condition and results of operations.

Table of Contents

Risks Related to Our Racing Operations

Our racing operations are highly regulated, and changes in the regulatory environment could adversely affect our business

Our racing business is subject to extensive state and local regulation, and we depend on continued state approval of legalized gaming in states where we operate. Our wagering and racing facilities must meet the licensing requirements of various regulatory authorities, including authorities in Kentucky, Illinois, Louisiana and Florida. To date, we have obtained all governmental licenses, registrations, permits and approvals necessary for the operation of our racetracks. However, we may be unable to maintain our existing licenses. The failure to attain, loss of or material change in our racing business licenses, registrations, permits or approvals may materially limit the number of races we conduct, and could have an adverse impact on our business, financial condition and results of operations.

In addition to licensing requirements, state regulatory authorities can have a significant impact on the operation of our business. For example, in Illinois the IRB has the authority to designate racetracks as "host track" for the purpose of receiving host track revenues generated during periods when no racetrack is conducting live races. Racetracks that are designated as "host track" obtain and distribute out of state simulcast signals for the State of Illinois. Under Illinois law, the "host track" is entitled to a larger portion of commissions on the related pari-mutuel wagering. Failure to designate Arlington Park as "host track" during this period could have an adverse impact on our business, financial condition and results of operations. In addition, Arlington Park is statutorily entitled to recapture as revenues monies that are otherwise payable to Arlington Park's purse account. These statutorily or regulatory established revenue sources are subject to change every legislative session, and their reduction or elimination could have an adverse impact on our business, financial condition and results of operations.

We are also subject to a variety of other rules and regulations, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages. If we are not in compliance with these laws, it could have a material adverse effect on our business, financial condition and results of operations.

Economic trends specific to the horse racing industry are unfavorable

Horsing and related activities, as well as the gaming services we provide, are similar to other leisure activities in that they represent discretionary expenditures likely to decline during economic downturns. In some cases, even the perception of an impending economic downturn or the continuation of a recessionary climate can be enough to discourage consumers from spending on leisure activities. These economic trends can impact the financial viability of other industry constituents, making collection of amounts owed to us uncertain. For example, during the year ended December 31, 2010, we recognized \$1.1 million of bad debt expense, net of purses, resulting from the bankruptcy filing of New York City Off-Track Betting Corporation (NYCOTB). During 2009, NYCOTB filed for Chapter 9 bankruptcy and on January 25, 2011, its Chapter 9 bankruptcy case was dismissed by the United States Bankruptcy Court for the Southern District of New York, and NYCOTB ceased operations. We will continue to closely monitor participants' operational viability within the industry and any related collection issues which could potentially have a material, adverse impact on our business, financial condition or results of operations.

Our racing business faces significant competition, and we expect competition levels to increase

All of our racetracks face competition from a variety of sources, including spectator sports and other entertainment and gaming options. Competitive gaming activities include traditional and Native American casinos, video lottery terminals, state-sponsored lotteries and other forms of legalized and non-legalized gaming in the U.S. and other jurisdictions, and we expect the number of competitors to increase. In addition, as a content provider we compete for wagering dollars in the simulcast market with other racetracks conducting races at or near the same times as our races. See Section J, Competition, for further discussion of racing industry competition.

Table of Contents

All of our racetracks face competition in the simulcast market. Approximately 46,000 thoroughbred horse races are conducted annually in the United States. Of these races, we host approximately 3,800 races each year, or around eight percent of the total. As a content provider, we compete for wagering dollars in the simulcast market with other racetracks conducting races at or near the same times as our races. As a racetrack operator, we also compete with other racetracks running live meets at or near the same time as our horse races. In recent years, this competition has increased as more states have allowed additional, automated gaming activities, such as slot machines, at racetracks with mandatory purse contributions.

Calder Race Course faces direct competition from another thoroughbred racetrack in Miami, Florida. The two racetracks are located approximately 6.5 miles apart. Under Florida law, racetracks are permitted to race throughout the year, subject to an annual notification filed with the State of Florida on February 28th of each year. As a result, Calder and the other racetrack, respectively, may independently elect to host live races on the same days. Historically, hosting live races on the same day as the other track has had a material, adverse impact on our business, financial condition and results of operations. On February 28, 2011, Calder filed its race dates request for the 2011-2012 racing season as part of its final dates submission to the Florida DPW. Upon completion of the 2010-2011 racing season, with live horseracing from April 25, 2011 through June 30, 2011, Calder's 2011-2012 request calls for live racing from July 1, 2011 through December 2, 2011, and from April 9, 2012 through June 30, 2012. Despite one less month of horseracing, Calder plans to conduct approximately the same number of race dates in 2011, as compared to 2010. The impact of the change in our race calendar cannot be predicted at this time, but could have a material, adverse impact on our business, financial condition and results of operations.

Competition from web-based businesses presents additional challenges for our racing business. Unlike most online and web-based gaming companies, our racetracks require significant and ongoing capital expenditures for both their continued operations and expansion. Our racing business also faces significantly greater costs in operating our racing business compared to costs borne by these gaming companies. Our racing business cannot offer the same number of gaming options as online and Internet-based gaming companies. Many online and web-based gaming companies are based off-shore and avoid regulation under U.S. state and federal laws. These companies may divert wagering dollars from pari-mutuel wagering venues, such as our racetracks. Our inability to compete successfully with these competitors could have a material, adverse impact on our business, financial condition and results of operations.

The popularity of horse racing is declining

There has been a general decline in the number of people attending and wagering on live horse races at North American racetracks due to a number of factors, including increased competition from other wagering and entertainment alternatives as discussed above and unwillingness of customers to travel a significant distance to racetracks. According to Equibase, pari-mutuel handle in the U.S. declined 9.9% between 2009 and 2008 and declined 7.3% during 2010 compared to the same period in 2009. We believe lower interest in racing may have a negative impact on revenues and profitability in our racing business, as well as our ADW business, which is dependent on racing content provided by our racing business and other track operators. Our business plan anticipates that we will attract new customers to our racetracks, OTBs and ADW operations. A continued decrease in attendance at live events and in on-track wagering, or a continued generalized decline in interest in racing, could have a material, adverse impact on our business, financial condition and results of operations.

Our racing business is geographically concentrated and experiences significant seasonal fluctuations in operating results

We conduct our racing business at four racetracks: Churchill Downs, Calder, Fair Grounds and Arlington Park. A significant portion of our racing revenues are generated by two events, the Kentucky Derby and the Kentucky Oaks. If a business interruption were to occur and continue for a significant length of time at any of our four racetracks, particularly one occurring at Churchill Downs at a time that would affect the Kentucky Derby or Kentucky Oaks, it could have a material, adverse impact on our business, financial condition and results of operations.

Table of Contents

In addition, we experience significant fluctuations in quarterly and annual operating results due to seasonality and other factors. We have a limited number of live racing days at our racetracks, and the number of live racing days varies from year to year. The number of live racing days we are able to offer directly affects our results of operations. A significant decrease in the number of live racing days and/or live races, including the Kentucky Derby and Kentucky Oaks, could have a material, adverse impact on our business, financial condition and results of operations.

We may not be able to attract a sufficient number of horses and trainers to achieve full field horseraces

We believe that patrons prefer to wager on races with a sufficient number of horses, commonly referred to as full fields. A failure to offer races with full fields results in less wagering on our horseraces. Our ability to attract full fields depends on several factors. It depends on our ability to offer and fund competitive purses and it also depends on the overall horse population available for racing. Various factors have led to declines in the horse population in certain areas of the country, including competition from racetracks in other areas, increased costs and changing economic returns for owners and breeders, and the spread of various debilitating and contagious equine diseases such as the neurologic form of Equine Herpes Virus-1 and Strangles. If any of our racetracks is faced with a sustained outbreak of a contagious equine disease, it would have a material impact on our profitability. Finally, if we are unable to attract horse owners to stable and race their horses at our racetracks by offering a competitive environment, including improved facilities, well-maintained racetracks, better conditions for backstretch personnel involved in the care and training of horses stabled at our racetracks and a competitive purse structure, our profitability could also decrease.

We also face increased competition for horses and trainers from racetracks that are licensed to operate slot machines and other electronic gaming machines that provide these racetracks an advantage in generating new additional revenues for race purses and capital improvements. For example, Churchill Downs and Arlington Park are experiencing heightened competition from racinos in Indiana, Pennsylvania, Delaware and West Virginia whose purses are supplemented by gaming revenues. In addition, New York has passed legislation authorizing video lottery terminals at New York racetracks. Ohio has authorized four land-based casinos by voter referendum and video lottery terminals at Ohio racetracks through executive order.

Our failure to attract full fields could have a material, adverse impact on our business, financial condition and results of operations.

Inclement weather and other conditions may affect our ability to conduct live racing

Since horseracing is conducted outdoors, unfavorable weather conditions, including extremely high and low temperatures, storms, tornadoes and hurricanes, could cause events to be cancelled and/or attendance to be lower, resulting in reduced wagering. Our operations are subject to reduced patronage, disruptions or complete cessation of operations due to weather conditions, natural disasters and other casualties. If a business interruption were to occur and continue for a significant length of time, at any of our racetracks, it could have a material, adverse impact on our business, financial condition and results of operations.

We depend on agreements with industry constituents including horsemen and other racetracks

The IHA, as well as various state racing laws, require that we have written agreements with the horsemen at our racetracks in order to simulcast races, and, in some cases, conduct live racing. Certain industry groups negotiate these agreements on behalf of the horsemen (the Horsemen's Groups). These agreements provide that we must receive the consent of the Horsemen's Groups at the racetrack conducting live races before we may allow third parties to accept wagers on those races. In addition, the agreements between other racetracks and their Horsemen's Groups typically provide that those racetracks must receive consent from the Horsemen's Groups before we can accept wagers on their races. For example, from time to time, the Thoroughbred Owners of California, the Horsemen's Group representing horsemen in California, and the Kentucky Horsemen's

Table of Contents

Benevolent and Protective Association (KHBPA) have withheld their consent to send or receive racing signals among racetracks. Further, the IHA and various state laws, require that we have written agreements with Horsemen s Groups at our racetracks in order to simulcast races on an export basis. In addition, our simulcasting agreements are generally subject to the consent of these Horsemen s Groups. Failure to receive the consent of these Horsemen s Groups for new and renewing simulcast agreements could have a material, adverse impact on our business, financial condition and results of operations.

We also have written agreements with the Horsemen s Groups with regards to the proceeds of gaming machines in Louisiana and Florida. Florida law requires Calder to have an agreement with the Florida Horsemen s Benevolent and Protective Association, Inc. (the FHBPA), governing the contribution of a portion of revenues from slot machine gaming to purses on live thoroughbred races conducted at Calder and an agreement with the Florida Thoroughbred Breeders and Owners Association (the FTBOA) governing the contribution of a portion of revenues from slot machines gaming to breeders , stallion, and special racing awards on live thoroughbred races conducted at Calder before Calder can receive a license to conduct slot machine gaming.

It is not certain that we will be able to maintain agreements with, or to obtain required consent from, Horsemen s Groups. We are in the process of negotiating formal agreements with the applicable Horsemen s Groups at Fair Grounds, Calder and Arlington Park, but are currently operating without formal agreements in place. The agreements with Horsemen s Groups at Fair Grounds, Calder and Arlington Park expired on November 5, 2009, January 4, 2011 and September 26, 2010, respectively. The failure to maintain agreements with, or obtain consents from, our horsemen on satisfactory terms or the refusal by a Horsemen s Group to consent to third parties accepting wagers on our races or our accepting wagers on third parties races could have a material, adverse impact on our business, financial condition and results of operations.

In addition, we have agreements with other racetracks for the distribution of racing content through both the import of other racetracks signals for wagering at our properties and the export of our racing signal for wagering at other racetracks facilities. From time to time, we are unable to reach agreements. As a result, we may be unable to distribute our racing content to other locations or to receive other racetracks racing content for wagering at our locations. The inability to distribute our racing content could have a material, adverse impact on our business, financial condition and results of operations.

Ownership and development of real estate requires significant expenditures and is subject to risk

Our racing operations require us to own extensive real estate holdings. All real estate investments are subject to risks including: general economic conditions, such as the availability and cost of financing; local and national real estate conditions, such as an oversupply of residential, office, retail or warehousing space, or a reduction in demand for real estate in the area; governmental regulation, including taxation of property and environmental legislation; and the attractiveness of properties to potential purchasers or tenants. The real estate industry is also capital intensive and sensitive to interest rates. Further, significant expenditures, including property taxes, mortgage payments, maintenance costs, insurance costs and related charges, must be made throughout the period of ownership of real property, which expenditures negatively impact our operating results.

In addition, we are subject to a variety of federal, state and local governmental laws and regulations relating to the use, storage, discharge, emission and disposal of hazardous materials. Environmental laws and regulations could hold us responsible for the cost of cleaning up hazardous materials contaminating real property that we own or operate (or previously owned or operated) or properties at which we have disposed of hazardous materials, even if we did not cause the contamination. If we fail to comply with environmental laws or if contamination is discovered, a court or government agency could impose severe penalties or restrictions on our operations or assess us with the costs of taking remedial actions.

Table of Contents

Our business depends on utilizing and providing totalizator services

Our customers utilize information provided by United Tote which accumulates wagers, records sales, calculates payoffs and displays wagering data in a secure manner to patrons who wager on our horseraces. The failure to keep technology current could limit our ability to serve patrons effectively or develop new forms of wagering and/or affect the security of the wagering process, thus affecting patron confidence in our product. A perceived lack of integrity in the wagering systems could result in a decline in bettor confidence and could lead to a decline in the amount wagered on horseracing.

In addition, United Tote has contracts to provide totalizator services to a significant number of North American racetracks, OTBs and other pari-mutuel wagering businesses. Its totalizator systems provide wagering data to the industry in a secure manner. Errors by United Tote technology or personnel may subject us to liabilities, including financial penalties under our totalizator service contracts, which could have a material, adverse impact on our business, financial condition and results of operations.

Risks Related to Our Gaming Business

Our gaming business is highly regulated

Our gaming operations exist at the discretion of the states where we conduct business, and are subject to extensive state and local regulation. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses or registrations and have the suitability of certain of our directors, officers and employees approved. While we have obtained all governmental licenses, registrations, permits and approvals necessary for the operation of our gaming facilities, we cannot assure you that we will be able to obtain such renewals or approvals, or that we will be able to obtain future approvals that would allow us to continue to operate or to expand our gaming operations.

Regulatory authorities also have input into important aspects of our operations, including hours of operation, location or relocation of a facility, numbers and types of machines and loss limits. Regulators may also levy substantial fines against or seize our assets or the assets of our subsidiaries or the people involved in violating gaming laws or regulations. Any of these events could have an adverse effect on our business, financial condition and results of operations. The high degree of regulation in the gaming industry is a significant obstacle to our growth strategy.

The gaming industry is highly competitive

Our gaming operations operate in a highly competitive industry with a large number of participants, some of which have financial and other resources that are greater than our resources. The gaming industry faces competition from a variety of sources for discretionary consumer spending including spectator sports and other entertainment and gaming options. Our gaming operations also face competition from Native American casinos, video lottery terminals, state-sponsored lotteries and other forms of legalized gaming in the U.S. and other jurisdictions. We do not enjoy the same access to the gaming public or possess the advertising resources that are available to state-sponsored lotteries or other competitors, which may adversely affect our ability to compete effectively with them. Additionally, web-based interactive gaming and wagering is growing rapidly and affecting competition in our industry. We anticipate that competition will continue to grow in the web-based interactive gaming and wagering channels because of ease of entry. In addition, Florida legislators continue to debate the expansion of Florida gaming to include Las Vegas-style destination resort casinos. Such casinos may be subject to taxation rates lower than the current gaming taxation structure. Should such legislation be enacted, it could have a material, adverse impact on our business, financial condition and results of operations. See Section J, Competition, for further discussion of gaming industry competition.

Table of Contents

Our gaming business is concentrated

We conduct our gaming business at three principal locations: Harlow s in Greenville, Mississippi, Calder Casino in Miami Florida, and Fair Grounds Slots in New Orleans, Louisiana. We also operate video poker machines throughout Louisiana through our subsidiary, VSI. If a business interruption were to occur and continue for a significant length of time at any of our principal gaming operations, or if economic or regulatory conditions were to become unfavorable in the regions in which they operate, it could have a material, adverse impact on our business, financial condition and results of operations.

The concentration and evolution of the slot machine manufacturing industry or other technological conditions could impose additional costs on us

The majority of our gaming revenues are attributable to slot and video poker machines operated by us at our casinos and wagering facilities. It is important for competitive reasons that we offer the most popular and up-to-date machine games with the latest technology to our guests. In recent years, the prices of new machines have escalated faster than the rate of inflation. In recent years, for example, slot machine manufacturers have frequently refused to sell slot machines featuring the most popular games, instead requiring participating lease arrangements in order to acquire the machines. Participation slot machine leasing arrangements typically require the payment of a fixed daily rental. Such agreements may also include a percentage payment of coin-in or net win. Generally, a participating lease is substantially more expensive over the long term than the cost to purchase a new machine. For competitive reasons, we may be forced to purchase new slot machines or enter into participating lease arrangements that are more expensive than the costs associated with the continued operation of our existing slot machines.

We materially rely on a variety of hardware and software products to maximize revenue and efficiency in our operations. Technology in the gaming industry is developing rapidly, and we may need to invest substantial amounts to acquire the most current gaming and hotel technology and equipment in order to remain competitive in the markets in which we operate. We rely on a limited number of vendors to provide video poker machines and any loss of our equipment suppliers could impact our operations. Ensuring the successful implementation and maintenance of any new technology acquired is an additional risk.

Risks Related to Our ADW Business

Our ADW business is highly regulated

TwinSpires, our ADW business, accepts advance deposit wagers from customers of certain states who set up and fund an account from which they may place wagers via telephone, mobile device or through the internet at TwinSpires.com. The ADW business is heavily regulated, and laws governing advance deposit wagering vary from state to state. Some states have expressly authorized advance deposit wagering by their own residents, some states have expressly prohibited pari-mutuel wagering and/or advance deposit wagering and other states have expressly authorized pari-mutuel wagering but have neither expressly authorized nor expressly prohibited their residents from placing wagers through advance deposit wagering hubs located in different states. We believe that an ADW business may open accounts on behalf of and accept wagering instructions from residents of states where pari-mutuel wagering is legal and where providing wagering instructions to ADW businesses in other states is not expressly prohibited by statute, regulations, or other governmental restrictions. However, state attorneys general, regulators, and other law enforcement officials may interpret state gaming laws, federal statutes, constitutional principles, and doctrines, and the related regulations in a different manner than we do. In the past, certain state attorneys general and other law enforcement officials have expressed concern over the legality of interstate advance deposit wagering.

Our expansion opportunities with respect to advance deposit wagering may be limited unless more states amend their laws or regulations to permit advance deposit wagering. Conversely, if states take affirmative action to make advance deposit wagering expressly unlawful, this could have a material, adverse impact on our business,

Table of Contents

financial condition and results of operations. In addition, the regulatory and legislative processes can be lengthy, costly and uncertain. We may not be successful in lobbying state legislatures or regulatory bodies to obtain or renew required legislation, licenses, registrations, permits and approvals necessary to facilitate the operation or expansion of our ADW business.

From time to time, the United States Congress has considered legislation that would either inhibit or restrict Internet gambling in general or inhibit or restrict the use of certain financial instruments, including credit cards, to provide funds for advance deposit wagering.

Furthermore, many states have considered and are considering interactive and Internet gaming legislation and regulations, which may inhibit our ability to do business in such states. Anti-gaming conclusions and recommendations of other governmental or quasi-governmental bodies could form the basis for new laws, regulations, and enforcement policies that could have a material, adverse impact on our business, financial condition and results of operations. The extensive regulation by both state and federal authorities of gaming activities also can be significantly affected by changes in the political climate and changes in economic and regulatory policies. Such effects could be materially adverse to the success of our advance deposit wagering operation.

Our ADW business faces strong competition, and we expect competition levels to increase

Our ADW business is sensitive to changes and improvements to technology and new products and faces strong competition from other web-based interactive gaming and wagering businesses. Our ability to develop, implement and react to new technology and products for our ADW business is a key factor in our ability to compete with other ADW businesses. In addition, we face competition from a new wagering product called exchange wagering, a variation of pari-mutuel wagering in which bettors wager directly against one another, establishing their own odds on a horserace. Both California and New Jersey legislatures have approved exchange wagering. Some of our competitors may have greater resources than we do. In addition, we believe that new competitors may enter the ADW business with relative ease because of the low cost of entry. As a result, we anticipate increased competition in our ADW business. It is difficult to predict the impact of increased competition on our ADW business. See Section J, Competition, for further discussion of ADW industry competition.

The World Trade Organization's ruling on U.S. internet gambling policy could adversely affect us

In the spring of 2005, the World Trade Organization Appellate Body (WTO Appellate Body) ruled that a claim from the island country of Antigua regarding U.S. Federal policy on international gambling may have merit due to an apparent inconsistency in how the U.S. treats interstate pari-mutuel wagers under the IHA, and all other sports wagers, both on an interstate and international basis. The WTO Appellate Body ruled that the IHA raised questions regarding whether the U.S. has taken a consistently negative position regarding Internet wagering across state and international boundaries. As a part of its ruling, the WTO Appellate Body ordered the U.S. to clarify its position on interstate pari-mutuel wagering on or before April 3, 2006. The Federal government elected to file no response, preferring to rely, instead, on its historical position that interstate account wagering violates the U.S. Federal Wire Act. The U.S. has subsequently pursued eliminating gambling from the list of permitted services that are contained in the treaty that was the subject of Antigua's complaint to the WTO. However, there are no assurances that such approach will ultimately result in establishing a consensus. If a consensus is not established, or if Congress prohibits or restricts substantially the conduct of interstate wagering or ADW wagering, the extent to which Federal authorities successfully prosecute account wagering operators based in the United States or that take wagers from United States residents could have a material adverse effect on our revenues, business, financial condition, operating results and financial performance. Alternatively, if, as a result of the U.S.'s position, offshore wagering is permitted into the United States, that also could have a material adverse effect on our revenues and financial performance by increasing the competition we face from offshore ADW companies.

Table of Contents

Our inability to retain our core customer base or our failure to attract new customers would have a material adverse effect on our business

Our data mining software generates detailed customer segmentation analyses based on variables such as wagering propensities and preferences, which allows us to personalize our product offerings through targeted special offers tailored to specific customer segments. We believe that these techniques help us to retain our best customers. In addition, our marketing relationships help us attract new customers. If we are unable to retain our core customer base through robust content offerings and other popular features, if we lose customers to our competitors, or if we fail to attract new customers, our businesses would fail to grow or would be adversely affected.

System failures or damage from earthquakes, fires, floods, power loss, telecommunications failures, break-ins or other unforeseen events could harm our business

Our ADW business depends upon our communications hardware and our computer hardware. We have built certain redundancies into our systems to avoid downtime in the event of outages, system failures or damage; however, certain risks still exist. Thus, our systems remain vulnerable to damage or interruption from floods, fires, power loss, telecommunication failures, terrorist attacks, hardware or software error, computer viruses, computer denial-of-service attacks and similar events. Despite any precautions we may take, the occurrence of a natural disaster or other unanticipated problems could result in lengthy interruptions in our services. Any unscheduled interruption in the availability of our website and our services results in an immediate, and possibly substantial, loss of revenue. Frequent or persistent interruptions in our services or a breach of customers' secure data could cause current or potential users to believe that our systems are unreliable, leading them to switch to our competitors or to avoid our site, and could permanently harm our reputation and brand. These interruptions also increase the burden on our engineering staff, which, in turn, could delay our introduction of new features and services on our website. We have property and business interruption insurance covering damage or interruption of our systems. However, this insurance might not be sufficient to compensate us for all losses that may occur.

We may not be able to respond to rapid technological changes in a timely manner or without service interruptions, which may cause customer dissatisfaction

The gaming sector is characterized by the rapid development of new technologies and continuous introduction of new products. Our main technological advantage versus potential competitors is our software lead-time in the market and our experience in operating an Internet-based wagering network. However, we may not be able to maintain our competitive technological position against current and potential competitors, especially those with greater financial resources. Our success depends upon new product development and technological advancements, including the development of new wagering platforms. While we expend a significant amount of resources on research and development and product enhancement, we may not be able to continue to improve and market our existing products or technologies or develop and market new products in a timely manner. Further technological developments may cause our products or technologies to become obsolete or noncompetitive.

Table of Contents

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Information concerning property owned by us required by this Item is incorporated by reference to the information contained in the subheadings C. Live Racing, D. Simulcast Operations and F. Gaming Operations in Item 1. Business of this Annual Report on Form 10-K.

Our real and personal property (but not including the property of HRTV, KOTB, NASRIN or Kentucky Downs) is encumbered by liens securing our \$375 million revolving line of credit facility. The shares of stock of and ownership interests in certain of our subsidiaries are also pledged to secure this debt facility.

The Kentucky Derby Museum is located on property that is adjacent to, but not owned by, Churchill Downs. The Museum is owned and operated by the Kentucky Derby Museum Corporation, a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986.

**ITEM 3. LEGAL PROCEEDINGS
HORSERACING EQUITY TRUST FUND**

During 2006, the Illinois General Assembly enacted Public Act 94-804, which created the Horse Racing Equity Trust Fund (HRE Trust Fund). The HRE Trust Fund is to be funded by a 3% surcharge on revenues of Illinois riverboat casinos that meet a certain revenue threshold. Approximately 60% of the funds are to be used for horsemen s purses (57% for thoroughbred meets and 43% for standardbred meets). The remaining monies paid to the HRE Trust Fund are to be distributed to Illinois organizational licensees, pursuant to percentage allocations set forth in Public Act 94-804, for the purpose of improving, maintaining, marketing and operating their racetracks. Such amounts also may be used for backstretch services and capital improvements. Public Act 94-804 expired after two years.

In an effort to prevent implementation of Public Act 94-804, the four Illinois riverboat casinos that met the revenue threshold, and therefore were required to contribute to the HRE Trust Fund, filed a complaint on May 30, 2006, in the Circuit Court of Will County, Illinois (Empress Casino Joliet Corp. v. Giannoulis, 06 CH 1294). The complaint alleged that Public Act 94-804 is unconstitutional and was filed against the State Treasurer and the IRB to enjoin the imposition and collection of the 3% surcharge from the riverboat casinos. The trial court ruled in April 2007 that Public Act 94-804 was unconstitutional. The Attorney General appealed to the Illinois Supreme Court, which reversed the ruling of the trial court (Empress Casino Joliet Corp. v. Giannoulis, 231 Ill.2d 62 (2008)). The riverboat casinos requested certiorari from the U.S. Supreme Court and filed a petition to stay payment until final determination was made by that court. On June 8, 2009, the U.S. Supreme Court denied certiorari.

On June 10, 2009, the riverboat casinos filed a petition with the Circuit Court of Will County, requesting that the judgment be re-opened and that Public Act 94-804 be held unconstitutional on new grounds (Empress Casino Joliet Corp. v. Giannoulis, 06 CH 1294). Arlington Park intervened on June 26, 2009. The trial court denied the petition, and the riverboat casinos appealed to the Appellate Court of Illinois, Third District. The riverboat casinos subsequently moved to voluntarily dismiss that appeal.

The riverboats had paid all monies required under Public Act 94-804 into a special protest fund account, which the Will County trial court kept in place via a preliminary injunction to prevent the monies from being transferred to the HRE Trust Fund. After the trial court denied the riverboat casinos petition to re-open the judgment, the trial court ordered the Treasurer to move the funds to the HRE Trust Fund. The Appellate Court of Illinois, Third District, then refused the riverboat casinos request to keep the funds in the special protest fund account. The funds were moved to the HRE Trust Fund and distributed to the racetracks, including Arlington Park, in December 2009. The Will County trial court ordered the State of Illinois to pay interest on the funds pursuant to Public Act 94-804, for the period between the date the riverboat paid those funds to the State and the date the State distributed the funds to the racetracks. The State appealed the trial court s order and on January 21, 2011,

Table of Contents

the Illinois Appellate Court, Third District, reversed that order, and found that the State was not required to pay such interest. On February 10, 2011, the Illinois racetracks filed a petition for rehearing in the Third District which was denied on February 23, 2011. The racetracks have until March 30, 2011 to petition the Illinois Supreme Court for review.

During November 2008, the Illinois General Assembly passed Public Act 95-1008 to extend Public Act 94-804 for a period of three years beginning December 12, 2008. In an effort to prevent implementation of Public Act 95-1008, the riverboat casinos filed a complaint on January 8, 2009, in the Circuit Court of Will County, Illinois (Empress Casino Joliet Corp. v. Giannoulas, 09 CH 122). The complaint alleged that Public Act 95-1008 is unconstitutional and was filed against the State Treasurer and the IRB to enjoin the imposition and collection of the 3% surcharge from the riverboat casinos. The trial court dismissed the complaint on November 19, 2009. The Appellate Court of Illinois, Third District, affirmed the trial court's dismissal of the complaint on January 27, 2011. The riverboat casinos petitioned the Illinois Supreme Court for leave to appeal on March 3, 2011. The riverboat casinos have paid all monies required under Public Act 95-1008 into a special protest fund account, which the trial court has retained via a preliminary injunction. The riverboat casinos moved to stay dissolution of the injunction pending their appeal of the trial court's dismissal order. The trial court denied the stay, as did the Appellate Court of Illinois on April 8, 2010. As of the date of the filing of this Annual Report on Form 10-K, we received \$40.5 million from the HRE Trust Fund, which is currently being held in an escrow account held by Arlington Park.

YOUBET MERGER

On November 17, 2009, a putative class action lawsuit, *Wayne Witkowski v. Youbet.com, Inc., et al.*, was filed in the Superior Court of Los Angeles, California against Youbet, several of its directors, the Company and the Company's wholly-owned subsidiaries, Tomahawk Merger Corp. (Merger Sub) and Tomahawk Merger LLC (Merger LLC). Subsequently, five additional lawsuits were also filed in the Los Angeles Superior Court, two of which name Youbet and its directors as defendants and three of which also name the Company as a defendant. All six lawsuits, which we refer to collectively as the Los Angeles litigation, are putative class actions brought on behalf of Youbet's stockholders. Plaintiffs in the Los Angeles litigation have since moved to consolidate the Los Angeles litigation, to file a single consolidated complaint and to appoint lead counsel. That motion was granted on January 22, 2010.

The complaints in the Los Angeles litigation all allege that Youbet's directors breached their fiduciary duties, including alleged duties of loyalty, due care and candor, in connection with the merger transaction. In that regard, the various complaints include, among other things, allegations that the transaction is the result of an inadequate sales process which was designed to maximize stockholder value; that the consideration to be received by Youbet shareholders was unfair and inadequate; that the merger agreement included inappropriate no solicitation, matching rights, no standstill waiver, and termination fee provisions; that the combined effect of these provisions, together with Youbet's waiver of the Youbet stockholder rights agreement with respect to the Company and the entry of voting agreements by defendants and certain others pursuant to which they agreed to vote in favor of the merger, was to lock up the merger transaction, foreclose potential alternative bidders and illegally restrain Youbet's ability to solicit or engage in negotiations with a third party; that various defendants acted for their own benefit in approving the merger, including for the purpose of obtaining positions or pursuing opportunities at the Company; and that material information was not provided in connection with the transaction and was not provided at the time that Youbet submitted the Youbet stockholder rights agreement to a stockholder vote. Those lawsuits which name the Company or its affiliates as defendants also allege that the Company aided and abetted the alleged breaches of fiduciary duty by Youbet's directors. Youbet is also alleged to have aided and abetted the alleged breaches of fiduciary duty by its directors. Among the relief sought by the complaints is unspecified damages, together with payment of attorneys' fees and costs.

On December 23, 2009, a putative class action lawsuit, *Raymond Balch v. Youbet.com, Inc., et al.*, was filed in the Delaware Court of Chancery against Youbet, various of its directors, the Company, Merger Sub and Merger LLC alleging claims similar to the Los Angeles Litigation. On January 8, 2010, Mr. Balch amended his complaint to add counts asserting that Youbet's directors breached their fiduciary duties to Youbet stockholders

Table of Contents

by allegedly failing to disclose material information regarding the sale of Youbet in a preliminary registration statement filed with the Securities and Exchange Commission on December 24, 2009, and that Youbet and the Company aided and abetted such alleged breaches.

On March 2, 2010, Youbet, Youbet's directors, the Company, Merger Sub, and Merger LLC entered into a memorandum of understanding with the plaintiffs in the Los Angeles Litigation and the plaintiffs in the *Balch* litigation reflecting an agreement in principle to settle the cases based on, among other things, defendants' agreement to include in an amended registration statement certain additional disclosures relating to the sale of Youbet. The memorandum of understanding provides that the settlement is subject to customary conditions including the completion of appropriate settlement documentation and completion of confirmatory discovery. Pursuant to the memorandum of understanding, an amended registration statement was filed containing the additional agreed disclosures.

On or about July 14, 2010, the parties to the Los Angeles Litigation and the Balch litigation entered into a settlement agreement consistent with the terms of the memorandum of understanding. The settlement agreement provided, among other things, for a certification of a class for settlement purposes, dismissal with prejudice of the Los Angeles Litigation and the Balch litigation, releases by class members and payment of attorneys' fees and expenses approved by the court, with the settlement agreement being subject to court approval. In both the memorandum of understanding and the settlement agreement, Youbet, Youbet's directors, the Company, Merger Sub, and Merger LLC each denied that they committed or aided and abetted in the commission of any violation of law or engaged in any of the wrongful acts alleged in the complaints, and expressly maintained that they diligently and scrupulously complied with any and all of their legal duties. Although Youbet, Youbet's directors, the Company, Merger Sub, and Merger LLC believed the lawsuits were without merit, they entered into the memorandum of understanding and settlement to eliminate the burden and expense of further litigation. On July 14, 2010, plaintiffs in the Los Angeles Litigation filed the settlement agreement with the Superior Court of California, County of Los Angeles, together with a request for preliminary approval of the settlement and of a proposed class notice and for the scheduling of a hearing date for final approval of the settlement. On August 19, 2010, the court presiding over the Los Angeles litigation granted preliminary approval to the proposed settlement. On December 20, 2010, the Los Angeles court granted final approval of the settlement and entered an order and final judgment, which, among other things, dismissed the Los Angeles Litigation with prejudice and approved a release to defendants from or on behalf of all of Youbet's non-affiliated public stockholders who held Youbet common stock at any time from November 10, 2009, through the date of the consummation of the merger. The deadline for an appeal from the order and final judgment in Los Angeles Litigation expired on February 18, 2011, with no appeal having been filed. Under the settlement agreement, the parties are to submit an agreed order to dismiss the Balch litigation with prejudice within 10 business days after the expiration of the time to file an appeal from the order and final judgment in the Los Angeles Litigation, which expired on March 7, 2011. We will not incur any material loss or expense as a result of this settlement.

CLOVERLEAF

On July 7, 2009, Cloverleaf Enterprises, Inc. (d/b/a Rosecroft Raceway) (Cloverleaf) filed a lawsuit styled *Cloverleaf Enterprises, Inc. vs. Maryland Thoroughbred Horsemen's Association, Inc., et. al.*, (Case No. 09-00459 PM) in the United States Bankruptcy Court, District of Maryland, Greenbelt Division. This adversary proceeding named the Company, Arlington Park and Calder (the Named CDI Entities) as defendants, along with TrackNet, certain Maryland thoroughbred entities and other racetracks outside of Maryland. Cloverleaf alleged that the defendants breached simulcast agreements to send audio-visual signals of their live thoroughbred horse races and that certain defendants, including TrackNet, tortiously interfered with simulcast agreements in which Cloverleaf entered. On November 16, 2009, Cloverleaf filed an amended complaint (the Amended Complaint) which asserted antitrust claims against certain of the defendants, but not the Company or TrackNet. On December 23, 2009, Cloverleaf dismissed the tortious interference claim against TrackNet, which left only breach of contract claims against TrackNet and the Company. The Company and TrackNet answered the Amended Complaint on January 12, 2010, denying the breach of contract claims.

The Maryland racing defendants subsequently moved to dismiss the Amended Complaint and to withdraw the reference to the bankruptcy court. On February 23, 2010, after the motion to withdraw the reference went

Table of Contents

unopposed, the adversary proceeding was transferred to the United States District Court, District of Maryland, and assigned Case No. 10-0407 (RDB). On May 14, 2010, the Company and TrackNet jointly moved for summary judgment on Cloverleaf's breach of contract claims against them. A motions hearing was held on July 29, 2010, and included the Maryland racing defendants' motion to dismiss. On August 25, 2010, the court granted the joint motion for summary judgment. On September 20, 2010, Cloverleaf filed a motion to reconsider, which the Company and TrackNet opposed. On November 1, 2010, the court denied Cloverleaf's motion for reconsideration. Cloverleaf had until December 1, 2010, to appeal the court's decision to the Fourth Circuit Court of Appeals, but did not appeal the decision. As a result, the litigation has concluded with respect to the claims against the Company and TrackNet.

FLORIDA QUARTER HORSE TRACK ASSOCIATION, INC.

On July 21, 2010, the Florida Quarter Horse Track Association, Inc. (the FQHTA) filed a lawsuit styled *Florida Horse Track Association, Inc. vs. State of Florida, Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering, Calder Race Course, Inc. and Tropical Park, Inc.*, (Case No. 2010 CA 2519) in the Circuit Court of the Second Judicial Circuit in and for Leon County, Florida. The FQHTA alleges that: 1) the Florida statute that authorizes the issuance of the original thoroughbred racing permit to Calder in 1969 was an unconstitutional special law under the Florida constitution, and 2) the arrangement between Tropical Park and Calder under which Tropical Park conducts its race meets at Calder is not authorized by the Florida statutes. The case is pending in Leon County, Florida. On March 2, 2011, our Motion to Dismiss filed jointly by Calder and the Division of Pari-Mutuel Wagering was granted.

HIALEAH RACE COURSE

On February 14, 2011, Hialeah Race Course (Hialeah) filed a lawsuit styled *Hialeah Racing Association, South Florida Racing Association, LLC and Bal Bay Realty, LTD vs. West Flagler Associates, LTD, Calder Race Course, Inc. and Tropical Park, Inc.*, (Case No. 11-04617 CA24) in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida. The plaintiffs allege that the defendants, including Calder and Tropical Park, have engaged in unfair methods of competition and have committed unfair acts and practices by, among other things, engaging in concerted actions designed to prevent the enactment of legislation to regulate thoroughbred racing dates, coordinating the selection of racing dates among Calder, Tropical Park and Gulfstream Park, soliciting the revocation of Hialeah's racing permit which prevented Hialeah from operating, participating in the drafting of a Florida constitutional amendment on slot machines to ensure that Hialeah was excluded from obtaining the opportunity to conduct gaming under such a constitutional amendment and instituting litigation challenging the validity of certain legislation in an effort to prevent the operation of slot machines at Hialeah. The plaintiffs have alleged an unspecified amount in damages. We filed a motion to dismiss on March 14, 2011.

BALMORAL, MAYWOOD AND ILLINOIS HARNESS HORSEMEN'S ASSOCIATION

On February 14, 2011, Balmoral Racing Club, Inc., Maywood Park Trotting Association, Inc. and the Illinois Harness Horsemen's Association, Inc. filed a lawsuit styled *Balmoral Racing Club, Inc., Maywood Park Trotting Association, Inc. and the Illinois Harness Horsemen's Association Inc. vs. Churchill Downs Incorporated, Churchill Downs Technology Initiatives Company d/b/a TwinSpires.com and Youbet.com, LLC* (Case No. 11-CV-D1028) in the United States District Court for the Northern district of Illinois, Eastern Division. The plaintiffs allege that Youbet.com breached a co-branding agreement dated December 2007, as amended on December 21, 2007, and September 26, 2008, (the Agreement) with plaintiffs by an unauthorized assignment of the Agreement to TwinSpires.com. The plaintiffs further allege that Youbet.com and TwinSpires have violated the Illinois Trade Secrets Act by misappropriating trade secrets. Finally, the plaintiffs allege that the Company and TwinSpires.com tortiously interfered with the Agreement by causing Youbet.com to breach the Agreement. The plaintiffs have alleged damages of at least \$3.6 million, or alternatively, of at least \$0.8 million. In addition, the plaintiffs have asked for certain injunctive relief.

OTHER MATTERS

There are no other pending legal proceedings, other than litigation arising in the ordinary course of our business.

ITEM 4. RESERVED

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the NASDAQ Global Market under the symbol CHDN. As of February 25, 2011, there were approximately 3,815 shareholders of record.

The following table sets forth the high and low sale prices, as reported by the NASDAQ Global Market, and dividend declaration information for our common stock during the last two years:

	2010 - By Quarter				2009 - By Quarter			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th
High Sale	\$ 38.68	\$ 40.92	\$ 37.44	\$ 44.50	\$ 41.84	\$ 40.68	\$ 39.92	\$ 38.88
Low Sale	\$ 33.61	\$ 30.33	\$ 31.84	\$ 35.03	\$ 20.71	\$ 28.20	\$ 30.94	\$ 30.00
Dividends per share:	\$ 0.50				\$ 0.50			

We presently expect that comparable annual cash dividends (adjusted for any stock splits or other similar transactions) will continue to be paid in the future.

The following table provides information with respect to shares of common stock repurchased by the Company during the quarter ended December 31, 2010:

	Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs
Period 1	10/1/10-10/31/10	4,709 ⁽¹⁾	\$ 35.72		
Period 2	11/1/10-11/30/10	3,597 ⁽¹⁾	\$ 37.51		
Period 3	12/1/10-12/31/10	1,389 ⁽¹⁾	\$ 37.51		
		9,695	\$ 36.70		

(1) Shares of common stock were acquired from grantees of restricted stock in payment of income taxes on the related compensation.

Table of Contents

Set forth below is a line graph comparing the yearly percentage change in the cumulative total shareholder return, including reinvested dividends, on our common stock against the cumulative total return of two market indices, the Russell 2000 Index and the Nasdaq Market Index, and two peer group indices, the Hemscoot Leisure Index and the Morningstar Gambling Index, for the period of five fiscal years commencing December 31, 2005 and ending December 31, 2010. The peer group indices used by the Company are the Hemscoot Leisure Index and the Morningstar Gambling Index which are published industry peer indices of companies engaged in the leisure and gaming industries. The broad equity market indices used by the Company are the Russell 2000 Index, which measures the performance of small and middle capitalization companies, and the Nasdaq Market Index, which measures the performance of stocks listed on the Nasdaq Global Market and the Nasdaq Capital Market. The graph depicts the result of an investment on December 31, 2005 of \$100 in these indices. We believe the Russell 2000 Index and the Morningstar Gambling Index are more indicative of our operations and will be used to replace the Nasdaq Market Index and the Hemscoot Leisure Index in future performance comparisons. Because we have historically paid dividends on an annual basis, the performance graph assumes that dividends were reinvested annually.

	Dec. 05	Dec. 06	Dec. 07	Dec. 08	Dec. 09	Dec. 10
Churchill Downs Inc.	\$ 100.00	\$ 117.72	\$ 149.98	\$ 113.87	\$ 106.61	\$ 125.28
Russell 2000 Index	\$ 100.00	\$ 118.37	\$ 116.51	\$ 77.15	\$ 98.10	\$ 124.46
NASDAQ Market Index	\$ 100.00	\$ 110.25	\$ 121.88	\$ 73.10	\$ 106.22	\$ 125.36
Morningstar Gambling	\$ 100.00	\$ 140.10	\$ 135.21	\$ 49.82	\$ 67.98	\$ 70.59
Hemscoot Leisure	\$ 100.00	\$ 126.48	\$ 125.94	\$ 71.86	\$ 75.16	\$ 136.42

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

(In thousands, except per common share data)	Years Ended December 31,				
	2010 ⁽¹⁾	2009 ⁽²⁾	2008 ⁽³⁾	2007 ⁽⁴⁾	2006 ⁽⁵⁾⁽⁶⁾
Operations:					
Net revenues	\$ 585,345	\$ 470,503	\$ 466,194	\$ 449,296	\$ 414,619
Operating income	\$ 31,566	\$ 34,733	\$ 52,779	\$ 33,636	\$ 49,582
Earnings from continuing operations	\$ 19,557	\$ 17,681	\$ 29,148	\$ 17,038	\$ 30,217
Discontinued operations, net of income taxes					
Loss from operations	\$ (5,827)	\$ (853)	\$ (599)	\$ 55	\$ (4,685)
Gain (loss) on sale of assets	\$ 2,623	\$	\$	\$ (1,362)	\$ 4,279
Net earnings	\$ 16,353	\$ 16,828	\$ 28,549	\$ 15,731	\$ 29,811
Basic net earnings from continuing operations per common share	\$ 1.27	\$ 1.28	\$ 2.10	\$ 1.24	\$ 2.24
Basic net earnings per common share	\$ 1.06	\$ 1.22	\$ 2.06	\$ 1.15	\$ 2.21
Diluted net earnings from continuing operations per common share	\$ 1.26	\$ 1.27	\$ 2.09	\$ 1.23	\$ 2.22
Diluted net earnings per common share	\$ 1.05	\$ 1.21	\$ 2.05	\$ 1.14	\$ 2.19
Dividends paid per common share	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50	\$ 0.50
Balance sheet data at period end:					
Total assets	\$ 1,017,719	\$ 725,402	\$ 637,667	\$ 624,816	\$ 546,328
Working capital (deficiency) surplus	\$ (18,556)	\$ (80,361)	\$ (29,915)	\$ (17,979)	\$ 1,650
Long-term debt	\$ 265,117	\$ 71,132	\$ 43,140	\$ 67,989	
Convertible note payable, related party	\$ 15,075	\$ 14,655	\$ 14,234	\$ 13,814	\$ 13,393
Real estate note payable, related party	\$	\$ 24,043			
Other Data:					
Shareholders' equity	\$ 506,214	\$ 407,022	\$ 393,891	\$ 367,558	\$ 350,079
Shareholders' equity per common share	\$ 30.55	\$ 29.74	\$ 28.77	\$ 26.88	\$ 26.09
Additions to property and equipment, exclusive of business acquisitions, net	\$ 61,952	\$ 81,940	\$ 40,150	\$ 45,632	\$ 46,599
Cash flow data at period end:					
Net cash provided by operating activities	\$ 59,857	\$ 71,047	\$ 78,234	\$ 51,225	\$ 69,508
Maintenance-related capital expenditures	\$ 14,709	\$ 12,276	\$ 14,704	\$ 21,440	\$ 16,742
Free cash flow ⁽⁷⁾	\$ 45,148	\$ 58,771	\$ 63,530	\$ 29,785	\$ 52,766

Table of Contents

The selected financial data presented above is subject to the following information:

- (1) During 2010, we revised our Consolidated Statements of Net Earnings and Comprehensive Earnings for the periods ended December 31, 2009, 2008, 2007 and 2006 to reflect the classification of pari-mutuel and gaming taxes as operating expenses and free play reward programs administered at our gaming facilities as a reduction to revenues. Previously, pari-mutuel and gaming taxes were presented as a reduction to revenues. Conversely, free play costs were presented as an operating expense. For the years ended December 31, 2009, 2008, 2007 and 2006, the net impact of the revision was an increase in net revenue of \$30.8 million, \$35.6 million, \$38.6 million and \$37.9 million, respectively. The revision, which the Company determined is not material, had no impact on operating income, results of operations, or cash flows. Also during 2010, CDE ceased operations and recorded a loss from operations before income tax benefit of \$9.1 million (\$5.8 million, net of income taxes) in discontinued operations. Finally, during 2010, we recognized a gain of \$2.6 million, net of income taxes, on the sale of Hollywood Park, upon the expiration of an indemnity of certain contractual obligations related to the sale.
- (2) During 2009, we recognized incremental income tax expense from continuing operations of \$2.3 million as well as income tax expense from discontinued operations of \$1.1 million related to proposed adjustments resulting from an audit of prior year income tax returns by the Internal Revenue Service. In addition, during 2009, we acquired land from a related party for \$27.5 million, which was financed partially with a short-term note payable of \$24.0 million. Finally, during 2009, we received \$24.0 million related to Illinois riverboat subsidies, which has been recorded in restricted cash and deferred revenues pending the outcome of a challenge of these subsidies by Illinois riverboats.
- (3) During 2008, we recognized a gain of \$17.2 million from insurance recoveries, net of losses, related to damages sustained by Fair Grounds from Hurricane Katrina.
- (4) On January 1, 2007, we adopted a newly issued accounting standard under which we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The cumulative effect of adopting this accounting standard was an increase of \$0.3 million to unrecognized tax benefits and a corresponding decrease to retained earnings. In addition, during 2007, we recognized a gain of \$0.8 million from insurance recoveries, net of losses, related to damages from Hurricane Wilma. Finally, during 2007, we recognized a loss of \$1.4 million, net of income tax benefit, related to the sale of Hoosier Park., L.P.
- (5) During 2006, we recognized a gain of \$20.6 million from insurance recoveries, net of losses, related to damages sustained by Fair Grounds, Calder and Ellis Park, from Hurricane Katrina, Hurricane Wilma and a tornado, respectively (\$1.4 million is included in discontinued operations). Also, during 2006, the Company recognized an asset impairment of \$7.9 million in discontinued operations to write down the long-lived assets of Hoosier Park to their estimated fair value. Finally, during 2006, we recognized a gain of \$2.6 million, net of income taxes, on the sale of Ellis Park, which was included in results from discontinued operations.
- (6) On January 1, 2006, we adopted a newly issued accounting standard and began to expense the fair value of all outstanding options related to an employee stock purchase plan over their remaining vesting periods to the extent the options were not fully vested as of the adoption date and began to expense the fair value of all options granted subsequent to December 31, 2005 over their requisite service periods. During the year ended December 31, 2006, the Company recorded \$0.1 million of additional share-based compensation expense as a result of the new standard.
- (7) Free cash flow, a non-GAAP financial measure, is defined as net cash provided by operating activities less maintenance-related (replacement) capital expenditures. Please refer to subheading Liquidity and Capital Resources in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in this Annual Report on Form 10-K for description of free cash flow and a reconciliation to the most closely related GAAP measure.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information set forth in this discussion and analysis contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The Private Securities Litigation Reform Act of 1995 (the Reform 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 Reform Act. The reader is cautioned that such forward-looking statements are based on information available at the time and/or management's good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements. Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. Forward-looking statements are typically identified by the use of terms such as anticipate, believe, could, estimate, expect, intend, may, might, plan, predict, project, should, will, and similar words. 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 expectations include those factors described in Item 1A. Risk Factors of this Annual Report on Form 10-K.

You should read this discussion with the financial statements and other financial information included in this report. Our significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Overview

We are a diversified provider of pari-mutuel horseracing content and technology for consumers and businesses through multiple platforms. We offer gaming products through our casino operations in Mississippi, our slot and video poker operations in Louisiana and our slot operations in Florida.

We operate in four operating segments as follows:

1. Racing Operations, which includes:

Churchill Downs Racetrack (Churchill Downs) in Louisville, Kentucky, an internationally known thoroughbred racing operation and home of the Kentucky Derby since 1875;

Arlington Park Race Course (Arlington Park), a thoroughbred racing operation in Arlington Heights along with ten off-track betting facilities (OTBs) in Illinois;

Calder Race Course (Calder), a thoroughbred racing operation in Miami Gardens, Florida; and

Fair Grounds Race Course (Fair Grounds), a thoroughbred racing operation in New Orleans along with eleven OTBs in Louisiana.

2. Online Business, which includes:

TwinSpire, an Advance Deposit Wagering (ADW) business that is licensed as a multi-jurisdictional simulcasting and interactive wagering hub in the state of Oregon;

Youbet.com, LLC (Youbet), an ADW business acquired by the Company on June 2, 2010. On November 16, 2010, the Youbet customer wagering platform was integrated into the TwinSpire's platform;

Fair Grounds Account Wagering (FAW), an ADW business that is licensed in the state of Louisiana;

Table of Contents

Bloodstock Research Information Services (BRIS), a data service provider for the equine industry; and

Our equity investment in HRTV, LLC (HRTV) a horseracing television channel.

3. Gaming, which includes:

Harlow s Casino Resort & Hotel (Harlow s) in Greenville, Mississippi, a casino and hotel acquired by the Company on December 16, 2010, which operates approximately 900 slot machines, 21 table games and a poker room, a five story, 105-room attached hotel, a 2,600-seat entertainment center, and dining facilities;

Calder Casino, a slot facility in Florida adjacent to Calder, which opened on January 22, 2010, with over 1,200 slot machines and includes a poker room operation branded Studz Poker Club ;

Fair Grounds Slots, a slot facility in Louisiana adjacent to Fair Grounds, which operates over 600 slot machines; and

Video Services, LLC (VSI), the owner and operator of more than 800 video poker machines in Louisiana;

4. Other Investments, which includes:

United Tote Company and United Tote Canada (collectively United Tote), which manufactures and operates pari-mutuel wagering systems for North American racetracks, OTBs and other pari-mutuel wagering businesses;

Churchill Downs Simulcast Productions, LLC (CDSP), a provider of television production to the racing industry; and

Our other minor investments.

In order to evaluate the performance of these operating segments internally, we use net revenues and EBITDA (defined as earnings before interest, taxes, depreciation and amortization) as key performance measures of the results of operations. We believe that the use of EBITDA enables us and investors to evaluate and compare from period to period our operating performance in a meaningful and consistent manner. However, EBITDA should not be considered as an alternative to, or more meaningful than, net earnings (as determined in accordance with accounting principles generally accepted in the United States of America) as a measure of our operating results. See Note 20 to the Consolidated Financial Statements for a reconciliation of EBITDA to net income.

During 2010, the continuing overall weakness in the U.S. economy has resulted in considerable negative pressure on consumer spending. As a result, pari-mutuel wagering and gaming businesses, which are driven, in part, by discretionary spending and industry competition, continued to weaken and contributed to a decline in our pari-mutuel handle of 3.0% during the year ended December 31, 2010 compared to the same period of 2009 despite the generation of \$192.4 million of handle by Yobet, which was acquired during June 2010. Total handle for the pari-mutuel industry, according to figures published by Equibase, declined 7.3% during the year ended December 31, 2010 compared to the same period of 2009. Although there is a growing confidence that the global economies have resumed growth, there remains risk that the recovery will be short-lived, such recovery may not include the industries or markets in which we conduct our business or the downturn may resume. There is a strong likelihood that the recent significant economic downturn has had, and for the foreseeable future will continue to have, a negative impact on our financial performance. We believe that, despite uncertain economic conditions, we are in a strong financial position.

Table of Contents

Recent Developments

Hoosier Park Consideration

In accordance with the sale of our 62% ownership interest in Hoosier Park, L.P. (Hoosier Park) to Centaur Racing, LLC (Centaur), on March 30, 2007, we received a promissory note issued, jointly and severally, by three individual investors in Centaur (the Note) in the amount of \$4.0 million, which accrued interest at a rate of 8.25% per year. According to the terms of the Note, interest was due and payable in one lump sum upon maturity of the note on March 30, 2010. As of December 31, 2010, approximately \$5.1 million of principal and interest is outstanding in accordance with the Note terms and recorded in other current assets on the Consolidated Balance Sheet.

The Partnership Interest Purchase Agreement with Centaur includes a contingent consideration provision whereby we are entitled to payments of up to \$15 million on the date which is eighteen months after the date that slot machines are operational at Hoosier Park. During June 2008, Hoosier Park commenced its slot operations, fulfilling the terms of the contingency provision. As of December 31, 2010, we determined that collectability of amounts due under the contingent consideration provision is not reasonably assured and, therefore, have not recognized the amounts due under the Partnership Interest Purchase Agreement. On March 6, 2010, Centaur and certain of its affiliates filed Chapter 11 bankruptcy petitions in the United States District Court for the District of Delaware.

On February 18, 2011, the U.S. Bankruptcy Court (Court) in Delaware approved Centaur s reorganization plan. The Court also approved our settlement agreement whereby, subject to the conditions contained in Centaur s reorganization plan being met, we will receive a cash payment of \$8.5 million. This payment will satisfy the promissory note issued and contingent consideration provision of the Partnership Interest Partnership Agreement. Amounts received in excess of the Note balance and accrued interest will be recorded as a gain on the sale of Hoosier Park once collectability is assured.

Harlow s Casino Resort & Hotel Acquisition

On December 16, 2010 we completed the purchase of Harlow s in Greenville, Mississippi for cash consideration of approximately \$140.4 million. The transaction included the acquisition of a 33,000-square foot casino, a five-story, 105-room hotel, a 2,600-seat entertainment center and three dining areas. The primary reason for the acquisition was to continue the Company s diversification and growth strategies and invest in assets with an expected yield on investment to enhance shareholder value.

New York City Off-Track Betting Corporation Bankruptcy

During the year ended December 31, 2010, we recognized \$1.1 million of bad debt expense, net of purses, in our Racing Operations and Other Investment segments resulting from the bankruptcy filing of New York City Off-Track Betting Corporation (NYCOTB). During 2009, NYCOTB filed for Chapter 9 bankruptcy, and on January 25, 2011, its Chapter 9 bankruptcy case was dismissed by the United States Bankruptcy Court for the Southern District of New York, and NYCOTB ceased operations.

Amendment of Revolving Credit Facility

On November 1, 2010, we entered into Amendment No. 1 to the Second Amended and Restated Credit Agreement (the Amendment), which amended certain provisions of our credit agreement and provided for the exercise of the accordion feature whereby the maximum aggregate commitment was increased from \$275 million to \$375 million. Additionally, the Amendment reduced the pricing schedule for outstanding borrowings by 37.5 basis points and commitment fees by 5 basis points across all leverage pricing levels. The guarantors under the credit agreement continue to be a majority of the Company s wholly-owned subsidiaries. We incurred loan origination costs of approximately \$0.4 million in connection with the Amendment, which will be capitalized and will be amortized as interest expense over the remaining term of the credit agreement. The facility terminates on December 22, 2013.

Table of Contents

Generally, borrowings made pursuant to the Amendment will bear interest at a LIBOR-based rate per annum plus an applicable percentage ranging from 1.625% to 3.125% depending on certain of the Company's financial ratios. In addition, under the Amendment, the Company agreed to pay a commitment fee at rates that range from 0.25% to 0.45% of the available aggregate commitment, depending on the Company's leverage ratio.

During the three months ended December 31, 2010, we utilized our increased borrowing capacity to fund the acquisition of Harlow's.

Long-Term Incentive Plan

During the three months ended December 31, 2010, we recognized \$1.9 million of compensation expense based on the assessment that the performance targets associated with the 2009 plan year under the Company's Long-Term Incentive Plan were achieved. See Note 15 to the Consolidated Financial Statements or further discussion of the Company's Long-Term Incentive Plan.

Youbet.com Merger

On June 2, 2010, we completed our acquisition of Youbet.com, Inc. pursuant to an Agreement and Plan of Merger dated as of November 11, 2009, for an aggregate purchase price of \$131.2 million, which consisted of \$45.3 million in cash and approximately 2.7 million shares of the Company's common stock valued at \$86.5 million based on the closing price of the Company's common stock on June 1, 2010, of \$32.04. The transaction includes the acquisition of the account wagering platform of Youbet and the operations of United Tote, which manufactures and operates pari-mutuel wagering systems for North American racetracks, OTBs and other pari-mutuel wagering businesses. The primary reason for the merger was to invest in assets with an expected yield on investment and continue our growth in one of the fastest growing segments of the pari-mutuel industry.

Dissolution of CDE

During 2010, we ceased operations of CDE, an entity created to develop and produce large-scale entertainment events. We made the decision to dissolve this group primarily because of our belief that achieving financial success conducting large-scale entertainment events is very difficult in the current economy. During the year ended December 31, 2010, CDE recognized a loss from operations before income tax benefit of \$9.1 million which included \$0.8 million of severance and other benefits costs related to the dissolution of the entity.

Ohio Legislation

On July 19, 2010, the Ohio Lottery Commission voted unanimously to seek a declaratory judgment that it has the authority to authorize the installation of video lottery terminals at each of Ohio's seven racetracks and promulgated new rules for the operation of video lottery poker machines at racetracks. It is anticipated that video lottery terminals at one or more of Ohio's racetracks may be operational during 2011. We believe that video lottery terminals at Ohio racetracks will provide a competitive advantage to those racetracks and may enable them to increase their purses. Given the proximity of Ohio to Kentucky, the Ohio racetracks may attract horses that would otherwise race at Kentucky racetracks, including Churchill Downs, thus negatively affecting the number of starters and purse size, which, in turn, may have a negative effect on handle.

Repayment of Related Party Short-Term Borrowing for Land Acquisition

During 2009, we entered into an agreement with The Duchossois Group (TDG), a related party, for the purchase of real estate adjacent to Arlington Park. TDG beneficially owns more than 5% of our common stock. The total purchase price of \$27.5 million was financed by a cash payment of \$3.5 million and a non-interest bearing promissory note of \$24.0 million. During the year ended December 31, 2010, we fully repaid the promissory note balance of \$24.0 million in accordance with the original terms of the promissory note.

Table of Contents

Dissolution of TrackNet Media Group LLC Venture

During 2007, together with Magna Entertainment Group, LLC, we formed a venture, TrackNet Media Group LLC (TrackNet) through which horseracing content was made readily available through a variety of distribution points and wagering platforms in order to enhance growth within the industry. TrackNet ceased operations during the year ended December 31, 2010, and each party will now be responsible for buying and selling its own horseracing content. MI Developments (MID) is the successor in interest to Magna's ownership interests. All existing third-party content agreements involving TrackNet were entered into by TrackNet as an agent for each Company-owned and MID-owned racetrack. Accordingly, those contracts, and their underlying rights and obligations, will continue to be valid for the remainder of the contracts respective terms. There was no significant impact on our consolidated financial position or results of operations for the year ended December 31, 2010, as a result of TrackNet ceasing operations during 2010.

Receipt of Illinois Riverboat Subsidy

During 2009, we received a payment of \$24.0 million from the Horse Racing Equity Trust Fund (HRE Trust Fund) related to subsidies paid by Illinois riverboat casinos in accordance with Public Act 94-804. During the year ended December 31, 2010, we received an additional \$16.5 million from the HRE Trust Fund. The monies have been placed into an escrow account of Arlington Park and are recognized as restricted cash. Revenues from these subsidies continue to be deferred as of December 31, 2010, as challenges regarding the constitutionality of Public Act 94-804 are still being made by the Illinois riverboat casinos.

Impairment of Software

During the second quarter of 2010, we recognized an impairment loss of \$1.3 million associated with software owned by TwinSpire. We determined such software would not be utilized as a result of a reassessment of the use of owned technology in connection with our acquisition of Youbet.

Income Taxes

We recently underwent federal income tax audits for calendar years 2004 through 2008. During 2005 and 2006, we received approximately \$23.5 million of proceeds related to the sale of Personal Seat Licenses (PSLs) sold in connection with the renovation of Churchill Downs. The PSLs that were sold included those with terms of 30 years and 5 years and provided the purchaser the right to purchase tickets to the Kentucky Derby, Kentucky Oaks and Breeders' Cup races each year during the term of the license. Accordingly, for tax purposes, we deferred the income for the personal seat licenses over the respective terms of the licenses.

During 2009, the Internal Revenue Service (the IRS) proposed that the income related to the sale of the PSLs is taxable during the period we received the proceeds (the Proposed Audit Adjustment). As a result, the Proposed Audit Adjustment served to increase the amount of the income taxes due for each of the years 2005 and 2006.

On April 14, 2010, we defended our position of deferring income related to the sale of PSLs using a fast track mediation process offered by the IRS. During the fast track mediation process, we agreed to change our method of accounting for proceeds related to the sale of PSLs to the deferral method provided for in Revenue Procedure 2004-34, effective for the taxable year ended December 31, 2007. As a result, our taxable income for each of the years ended December 31, 2007 and 2008 increased by \$19.1 million and \$0.4 million, respectively. In accordance with the settlement entered into during the fast track mediation process, we recognized an income tax benefit from continuing operations of \$0.7 million during the year ended December 31, 2010 reflecting a reduction of interest expense previously estimated, partially offset by higher income tax due then previously estimated.

During 2003, we entered into a Tax Increment Financing Agreement (TIF) with the Commonwealth of Kentucky. Pursuant to this agreement, we are entitled to receive reimbursement for 80% of the increase in

Table of Contents

Kentucky income and sales tax resulting from our 2005 renovation of the Churchill facility. Due to uncertainties related to the computation of the tax increase, we are uncertain how much, if any, of a benefit we are currently entitled to receive. The benefit, if received, will be recorded as a reduction of other direct expenses and reduction to income tax expense.

Legislative and Regulatory Changes

Please refer to subheading K. Legislative Changes in Item 1. Business of this Annual Report on Form 10-K for information regarding legislative and regulatory changes.

Critical Accounting Policies and Estimates

Our Consolidated Financial Statements have been prepared in conformity with accounting principles generally accepted in the United States. Accordingly, we are required to make estimates, judgments and assumptions that we believe are reasonable based on our historical experience, contract terms, observance of known trends in our company and the industry as a whole and information available from other outside sources. Our estimates affect the reported amounts of assets and liabilities and related disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those initial estimates.

Our most significant estimates relate to the valuation of property and equipment, receivables, goodwill and other intangible assets, which may be significantly affected by changes in the regulatory environment in which we operate, and to the aggregate costs for self-insured liability and workers compensation claims. Additionally, estimates are used for determining income tax liabilities.

We review the carrying values of goodwill and indefinite-lived intangible assets at least annually during the first quarter of each year or whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. In assessing whether goodwill is impaired, the fair value of the related reporting unit is compared to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test consists of comparing the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized equal to such excess. The implied fair value of goodwill is determined in the same manner as when determining the amount of goodwill recognized in a business combination. We assign estimated useful lives to our definite-lived intangible assets based on the period of time the asset is expected to contribute directly or indirectly to future cash flows. We consider certain factors when assigning useful lives such as legal, regulatory, competition and other economic factors. Intangible assets with definite lives are amortized using the straight-line method.

While we believe that our estimates of future revenues and cash flows are reasonable, different assumptions could materially affect our assessment of useful lives and fair values. Changes in assumptions may cause modifications to our estimates for amortization or impairment, thereby impacting our results of operations. If the estimated lives of our definite-lived intangible assets were to decrease based on the factors mentioned above, amortization expense could increase significantly.

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

Additional information regarding how our business can be impacted by competition and legislative changes is included in subsection J and subsection K, respectively, to Item 1. Business in this Annual Report on Form 10-K.

Table of Contents

In connection with losses incurred from natural disasters, insurance proceeds are collected on existing business interruption and property and casualty insurance policies. When losses are sustained in one period and the amounts to be recovered are collected in a subsequent period, management uses estimates and judgment to determine the amounts that are probable of recovery under such policies. Estimated losses, net of anticipated insurance recoveries, are recognized in the period the natural disaster occurs and the amount of the loss is determinable. Insurance recoveries in excess of estimated losses are recognized when realizable.

We also use estimates and judgments for financial reporting to determine our current tax liability, as well as those taxes deferred until future periods. Net deferred and accrued income taxes represent significant assets and liabilities of the Company. In accordance with the liability method of accounting for income taxes, we recognize the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns.

Adjustments to deferred taxes are determined based upon changes in differences between the book basis and tax basis of our assets and liabilities, measured by future tax rates we estimate will be applicable when these differences are expected to reverse. Changes in current tax laws, enacted tax rates or the estimated level of taxable income or non-deductible expenses could change the valuation of deferred tax assets and liabilities and affect the overall effective tax rate and tax provision.

We maintain an allowance for doubtful accounts receivable that we have deemed to have a high risk of uncollectibility. We analyze historical collection trends and customer creditworthiness when evaluating the adequacy of our allowance for doubtful accounts receivable. Any changes in our assumptions or estimates could impact our bad debt expense and results of operations.

In 2010, our business insurance renewals included substantially the same coverage and retentions as in previous years. We estimate insurance liabilities for workers' compensation and general liability losses based on our historical loss experience, certain actuarial assumptions of loss development factors and current industry trends. Any changes in our assumptions, actuarial assumptions or loss experience could impact our total insurance cost and overall results of operations.

Our significant accounting policies are more fully described in Note 1 to the Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Consolidated Net Revenues

Our net revenues and earnings are significantly influenced by our racing calendar. Therefore, revenues and operating results for any interim quarter are not generally indicative of the revenues and operating results for the year, and may not be comparable with results for the corresponding period of the previous year. We historically have fewer live racing days during the first quarter of each year, with a majority of our live racing occurring in the second, third and fourth quarters, including the running of the Kentucky Derby and Kentucky Oaks in the second quarter. Information regarding racing dates at our facilities for 2011 and 2010 is included in subsection I to Item 1. Licenses and Live Race Dates of this Annual Report on Form 10-K.

Our pari-mutuel revenues include commissions on pari-mutuel wagering at our racetracks, OTBs and ADW providers, plus simulcast host fees from other wagering sites and source market fees generated from contracts with ADW providers. In addition to the commissions earned on pari-mutuel wagering, we earn pari-mutuel related streams of revenues from sources that are not related to wagering. These other pari-mutuel related revenues are primarily derived from statutory racing regulations in some of the states where our facilities are located and can fluctuate materially year-to-year. Gaming revenues are primarily generated from slot machines, table games and video poker. Other operating revenues are primarily generated from admissions, sponsorships, licensing rights and broadcast fees, fees for alternative uses of our facilities, concessions, lease income, information sales and other sources.

Table of Contents

Pari-mutuel revenues are recognized upon occurrence of the live race that is presented for wagering and after that live race is made official by the respective state's racing regulatory body. Gaming revenues represent net gaming wins, which is the difference between gaming wins and losses. Other operating revenues such as admissions, programs and concession revenues are recognized as delivery of the product or service has occurred.

Our customer loyalty programs, TwinSpires Club for pari-mutuel wagering and the Player's Club for our gaming locations offer incentives to customers who wager at our racetracks or wager at our gaming facilities in Louisiana, Florida and Mississippi. Under the programs, customers are able to accumulate points over time that they may redeem for cash, free play, merchandise or food and beverage items at their discretion under the terms of the programs. As a result of the ability of the customer to accumulate points, we accrue the cost of points, after consideration of estimated forfeitures, as they are earned. The estimated value of the cost to redeem points is recorded as the points are earned. To arrive at the estimated cost associated with points, estimates and assumptions are made regarding incremental costs of the benefits, rates and the mix of goods and services for which points will be redeemed. The retail value of the points-based cash awards or complementary goods and services is netted against revenue as a promotional allowance. At December 31, 2010 and 2009, the reward point liability was \$2.7 million and \$1.6 million, respectively.

We have revised our Consolidated Statements of Net Earnings and Comprehensive Earnings for the periods ended December 31, 2009 and 2008 to appropriately reflect the classification of pari-mutuel taxes, gaming taxes and free play reward programs administered at our racing and gaming facilities. Previously, pari-mutuel and gaming taxes were presented as a reduction to revenues when they more properly should have been presented as an operating expense. Conversely, costs to provide free play were presented as an operating expense whereas they more properly should have been presented as a reduction to revenues. For the years ended December 31, 2009 and 2008, the net impact of the revision was an increase in net pari-mutuel wagering revenue of \$21.2 million and \$25.4 million, respectively, with a corresponding increase in purses and pari-mutuel taxes. In addition, gaming revenues increased by \$15.0 million and \$13.4 million, respectively, with a corresponding increase in gaming taxes. Finally, the impact of the free play revision was a reduction in net gaming revenues of \$5.4 million and \$3.2 million, respectively, with a corresponding decrease in other direct expenses. The revision, which the Company determined is not material, had no impact on operating income or cash flows.

Approximately 56% of our annual revenues are generated by pari-mutuel wagering on live and simulcast racing content through OTBs and ADW providers. Live racing handle includes patron wagers made on live races at our racetracks and also wagers made on imported simulcast signals by patrons at our racetracks during live meets. Import simulcasting handle includes wagers on imported signals at our racetracks when the respective tracks are not conducting live racing meets, at our OTBs and through our ADW providers throughout the year. Export handle includes all patron wagers made on live racing signals sent to other tracks, OTBs and ADW providers. Advance deposit wagering consists of patron wagers through an advance deposit account.

We retain as revenue a pre-determined percentage or commission on the total amount wagered, and the balance is distributed to the winning patrons. The gross percentages earned on live racing and import simulcasting at our various locations range from approximately 18% to 22%. In general, the fees earned from export simulcasting (including ADW wagering) are contractually determined and average approximately 4.8%.

Certain key operating statistics specific to the gaming industry are included in our discussion of performance of the gaming segment. Our slot facilities report slot handle as a volume measurement, defined as the gross amount wagered or coins placed into slot machines in aggregate for the period cited. In addition, our slot facilities and video poker operations report net win per unit, which is calculated as gross gaming revenues, less customer payouts and free play, per machine and per day of operations.

Table of Contents**RESULTS OF CONTINUING OPERATIONS****Pari-mutuel Handle**

The following table sets forth, for the periods indicated, pari-mutuel financial handle data for our Racing Operations segment (in thousands):

	Year Ended December 31,			10 vs. 09 Change		09 vs 08 Change	
	2010	2009	2008	\$	%	\$	%
Racing Operations:							
Churchill Downs							
Total handle	\$ 622,651	\$ 648,805	\$ 765,861	\$ (26,154)	-4%	\$ (117,056)	-15%
Net pari-mutuel revenues	\$ 53,516	\$ 54,812	\$ 60,913	\$ (1,296)	-2%	\$ (6,101)	-10%
Commission %	8.6%	8.4%	8.0%				
Arlington Park							
Total handle	\$ 576,012	\$ 733,107	\$ 791,319	\$ (157,095)	-21%	\$ (58,212)	-7%
Net pari-mutuel revenues	\$ 61,826	\$ 75,795	\$ 76,317	\$ (13,969)	-18%	\$ (522)	-1%
Commission %	10.7%	10.3%	9.6%				
Calder							
Total handle	\$ 600,038	\$ 672,625	\$ 649,533	\$ (72,587)	-11%	\$ 23,092	4%
Net pari-mutuel revenues	\$ 67,828	\$ 73,025	\$ 77,653	\$ (5,197)	-7%	\$ (4,628)	-6%
Commission %	11.3%	10.9%	12.0%				
Fair Grounds							
Total handle	\$ 365,466	\$ 432,511	\$ 498,742	\$ (67,045)	-16%	\$ (66,231)	-13%
Net pari-mutuel revenues	\$ 37,474	\$ 41,454	\$ 49,001	\$ (3,980)	-10%	\$ (7,547)	-15%
Commission %	10.3%	9.6%	9.8%				
Online Business							
Total handle	\$ 588,135	\$ 329,653	\$ 234,413	\$ 258,482	78%	\$ 95,240	41%
Net pari-mutuel revenues	\$ 114,951	\$ 65,412	\$ 47,210	\$ 49,539	76%	\$ 18,202	39%
Commission %	19.5%	19.8%	20.1%				
Eliminations							
Total handle	\$ (105,968)	\$ (99,639)	\$ (81,488)	\$ (6,329)	-6%	\$ (18,151)	-22%
Net pari-mutuel revenues	\$ (9,349)	\$ (7,115)	\$ (6,055)	\$ (2,234)	-31%	\$ (1,060)	-18%
Total							
Handle	\$ 2,646,334	\$ 2,717,062	\$ 2,858,380	\$ (70,728)	-3%	\$ (141,318)	-5%
Net pari-mutuel revenues	\$ 326,246	\$ 303,383	\$ 305,039	\$ 22,863	8%	\$ (1,656)	-1%
Commission %	12.3%	11.2%	10.7%				
NM: Not meaningful		U: > 100% unfavorable	F: >100% favorable				

Table of Contents**Gaming Activity**

The following table sets forth, for the periods indicated, statistical gaming information (in thousands, except for average daily information):

	Year Ended December 31,			10 vs. 09 Change		09 vs. 08 Change	
	2010	2009	2008	\$	%	\$	%
Calder Casino							
Net gaming revenues	\$ 63,035	\$ 227	\$	\$ 62,808	F	\$ 227	NM
Slot handle	\$ 782,630	\$	\$	\$ 782,630	NM	\$	NM
Net slot revenues	\$ 60,238	\$	\$	\$ 60,238	NM	\$	NM
Average daily net win per slot machine	\$ 144	\$	\$	\$ 144	NM	\$	NM
Average daily number of slot machines	1,213			1,213	NM		NM
Average daily poker revenue	\$ 7,664	\$ 3,393	\$	\$ 4,271	F	\$ 3,393	NM
Fairgrounds Slots and video poker							
Net gaming revenues	\$ 73,224	\$ 70,579	\$ 60,308	\$ 2,645			