
MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Churchill Downs Incorporated First Quarter Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, today's conference call is being recorded.

I would now like to introduce your host for today's conference Ms. Julie Koenig, Vice President of Corporate Communications. Ma'am you may begin.

Julie Koenig Loignon, Vice President of Communications

Thank you, Devin. Good morning and welcome to this Churchill Downs Incorporated conference call to review the company's results for the first quarter and three months ended March 31, 2011. The results were released yesterday afternoon in a news release that has been covered by the financial media.

A copy of this release announcing results and any other financial and statistical information about the period to be presented in this conference call, including any information required by Regulation G, is available at the section of the company's website titled Company News, located at churchilldownsincorporated.com as well as in the website's Investors section. Let me also note that a news release was issued advising of the accessibility of this conference call on a listen-only basis via phone and over the Internet.

As we begin, let me express that some statements made during this call will be forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, expectations or beliefs about future events or results, or are otherwise not statements of historical facts.

The actual performance of the company may differ materially from what is projected in such forward-looking statements. Investors should refer to statements included and to reports filed by the company with the Securities and Exchange Commission for a discussion of additional information concerning factors that could cause our actual results of operations to differ materially from the forward-looking statements made in this call.

The information being provided today is of this date only and Churchill Downs Incorporated expressly disclaims any obligation to release publicly any updates or revisions to these forward-looking statements to reflect any changes in expectations.

I will now turn the call over to Bob Evans, Chairman-elect and CEO.

Robert L. Evans, Chairman-elect and Chief Executive Officer

Thanks Julie. Good morning, everyone. Thank you for joining us. I hope you had the chance to experience and participate in the Kentucky Derby in some capacity this year because it was one for the record books quite literally. We set a new Derby Day attendance record of 164,858, surpassing the prior record of 163,628 set back in 1974 during the Derby centennial year.

We also welcomed a brand new owner, trainer Jockey team into the family of Derby winners with owners Team Valor, which is managed by Barry Irwin, trainer, Graham Motion and Jockey Johnny Velazquez, taking the roses with their entry, Animal Kingdom.

We launched Oaks and Derby Week this year with a new event called Opening Night at Churchill Downs, the turnout was fantastic 38,142 which to give you some perspective is about 25,000 people more than came to opening day at Churchill Downs last year. Now there is a lot of positive news to share about this year's Oaks and Derby Week and I'll get to that after our CFO, Bill Mudd and I talk with you about the topic at hand, our first quarter results.

Bill will take you through the numbers in greater detail in just a moment, but first I'd like to spend a little time talking about the quarter's results and how they reflect on the growth and diversification strategy we have outlined for you on previous quarterly calls.

We recorded a 54% increase in net revenues from continuing operations quarter-over-quarter. We also reversed what had been a \$5 million EBITDA loss during the first quarter of 2010 and turned it into positive EBITDA of \$11.2 million, a \$16 million improvement. This resulted in us reducing our net loss for the first quarter by 63%. As a reminder, we have historically posted a net loss during the first quarter of the year because only one of our race tracks conducted live racing during that period. But, we still posted a loss to this quarter. You can see that by diversifying our business and adding gaming and online businesses to our racing business, we are improving our Q1 performance.

Our stronger performance during the first quarter is the direct result of two key acquisitions we made in 2010, Youbet.com and Harlow's Casino Resort & Hotel, which are positively effecting both our top and bottom line results. We fully integrated Youbet.com with our account wagering company, TwinSpires.com last November and closed the Harlow's purchase in mid December. During the quarter, we also saw growth in our Calder and Fair Grounds gaming operations. The Calder Casino was opened all three months this quarter. It was open for only two months in the same quarter last year and we saw its net gaming revenues go up by 55%.

Net gaming revenues at Fair Grounds' slots and Fair Grounds' video poker operations increased to 7% quarter-over-quarter. Both Calder and Fair Grounds saw increases in their average daily net win for slot machine. Our racing operation still experienced wagering declines compared to the first quarter of 2010 as did the entire industry. Our tracks and OTBs fared better than the industry in this regard, but the 6.3% decline in handle quarter-over-quarter, while the industry recorded an 8.5% decline in wagering over the same period.

The ongoing decline in handle and the related impact to our racing operations has been a recurring theme in our discussions with you for more than a year. And as we've previously stated, it's difficult under these circumstances to invest a lot of our shareholders' capital in racing, other than on a highly selective basis. That said, we do believe there is demand for high-quality racing entertainment that is appealing to both existing customers and it can attract new fans. And that's really the essence of Oaks and Derby week, great racing combined with great entertainment on track, on television and online.

Before I turn things over to Bill, I want to update you on the flood situation at Harlow's in Greenville, Mississippi. Last Friday, state officials directed us to close Harlow's due to concerns about flooding along the Mississippi River. The other casinos in Greenville have also been closed as have the non-casinos in Tunica, Mississippi which is about 120 miles upriver from Greenville. Mississippi officials have declared a state of emergency in Washington County, where Harlow's is located and right now, we don't know when they will allow us to reopen the property.

We carry property damage insurance and also have business interruption insurance that kicks in should we suffer property damage. Additionally, we are taking steps to mitigate potential flooding of the property by building temporary levies around Harlow's to give it added protection from rising waters. The river is projected to crest in Greenville at just over 64 feet later this week. We believe the temporary levies we're completing will give us protection up to a 68 foot crest. We're monitoring

the situation very closely and will issue updates as necessary as well as our timetable to reopen once the state of emergency is past.

I want to say a special thanks to the team there in Greenville at Harlow's. They've done an outstanding job and have been working basically 24x7 for the last couple of weeks, getting ready for all of this. So, great job down there.

With that let me turn things over to Bill, who will take you through our first-quarter financials. Bill?

William E. Mudd, Executive Vice President and Chief Financial Officer

Thank you Bob and good morning everyone. I will review the information in the tables of the press release that can be found under the investor section of the website that Julie referred to earlier. Following my comments I will return it back over to Bob for some final thoughts on the Kentucky Oaks and the Kentucky Derby before we open the call for questions.

The discontinued operations section of our financial statements and tables contain adjustments related Hollywood Park, Ellis Park and Churchill Downs Entertainment. My comments will focus only on the performance of continuing operations.

Let's begin by reviewing the segment information which is contained on the schedule titled Supplemental Information by Operating Unit and the release.

Total racing operations net revenues from external customers declined 4% or \$1.4 million versus the same period the prior year. According to numbers published by Equibase, wagering on U.S. thoroughbred racing declined 8.5% in the quarter, however, racing operations did slightly better than that with a 6.3% decline.

Our Fair Grounds racetrack conducted 58 days of live racing this quarter. Net external customer revenue at this property was down 2% on a 6% handle decline. Our on-track live handle, however, improved 3% year-over-year which was partly driven by successful [ph] Starbite (9:16) racing event, modeled after Churchill Downs night racing as well as an increase in five live racing days.

Our online business net revenues from external customers more than doubled to \$36.8 million during the quarter primarily driven by the Yobet acquisition last June. While reported handle more than doubled from \$83 million to nearly \$179 million, the combined Yobet and Twin Spires platform was down about 10% versus the comparable period of 2010.

A good portion of this loss is handle with very thin margins. For the month of March our handle decline was only 8% while the industry decline was 10%, so we're starting to see some improvement vis-à-vis the industry.

Our gaming business net revenues from external customers increased 75% or \$25.3 million, primarily due to the acquisition of Harlow's resort and casino and hotel, which produced \$16.9 million. On a comparable basis, Harlow's revenues improved 3% over the prior year despite the hotel being closed since February 24th due to windstorm damage.

Harlow's has continued to pick up market share and is benefiting from the new bridge recently opened over the Mississippi River into Arkansas. Our Calder Casino, which we opened in late January 2010 recognized eight of its 10 highest revenue days during the first quarter since opening.

Net external customer revenues increased \$7.1 million to \$20.6 million in the period. We realized good returns on investment from increased marketing promotions and direct mail campaigns. We will continue making these investments where we see positive overall economics. For the month of

March, our net external customer revenue was up 22% to the prior year, which we hope bodes well for future quarters.

Our Louisiana gaming operations also grew external revenues this quarter. In our video poker operations, we posted a 9% increase over the prior year while our Fair Grounds slots operation grew 5%. We purchased new machines for both of these businesses early in the quarter, which we believe is part of the driver.

Now, let's look at the EBITDA performance by segment at the bottom of the page. Our racing operations' EBITDA performance improved \$0.2 million over the same period of the prior year. And EBITDA decreased \$0.7 million driven by pari-mutuel declines and a loss of super bowl parking revenues were offset by lower allocation of corporate overhead of \$1.0 million. In our online business, EBITDA improved by \$3.6 million or 89% over the prior year driven by the Youbet acquisition and the cost synergies realized by combining the platforms. The Youbet integration is nearly complete with our exit of the Woodland Hills facility on January 31st.

Gains from the Youbet acquisition were partly offset by \$0.9 million, the year-over-year EBITDA declines and our share of the HRTV joint venture. This is a reflection of our, [ph] a (12:41) change of how we share television fee revenues, television fee revenues, with our partner and is expected to reverse itself as our race tracks go live in April. We expect most of this year-over-year change to reverse itself in the second quarter.

Additionally, online segment – the online segment recognized \$0.3 million more in corporate overhead allocations. Our gaming business EBITDA jumped to \$17.5 million from \$4.9 million a year earlier. We were very pleased with our new Harlow's property, which generated \$7.3 million in EBITDA before corporate allocations of \$0.7 million.

Our Calder Casino dramatically improved year-over-year results and reported EBITDA of \$4 million before corporate allocations of \$0.9 million. As a reminder, the prior year results for our Calder property included \$1.1 million in pre-opening expenditures.

Our gaming properties in Louisiana also reported increases in profitability driven by the revenue growth. Our video poker EBITDA improved 29% to \$3.6 million while our slots operation improved 17% to \$4.2 million. Total EBITDA came in at \$11.2 million an improvement of \$16.2 million over the prior year.

Now if you would, please turn your, to the table that is titled Condensed Consolidated Statements of Net Earnings. Total revenues from continuing operations increased by 54% or \$46.4 million as gains in our gaming and online businesses more than offset declines in our racing operations.

SG&A expenses increased by \$3 million versus the same quarter of the prior year, \$2 million of this increase is driven by non-cash compensation for equity awards as well as expenses related to our long-term incentive plan.

SG&A spending also increased \$1.1 million as a result of the Harlow's and Youbet acquisitions. Our fully-diluted loss per share from continuing operations for the quarter was a loss of \$0.19 compared to a loss of \$0.60 in the prior year.

Now please turn to the page titled Consolidated Statements of Cash Flows. Net cash provided by operating activities improved to \$60.5 million from \$21.3 million reported a year earlier. EBITDA increases were the biggest driver of this improvement. But we also received \$8.5 million in federal tax refunds from over-payments made in 2010. Additionally, we paid \$1.9 million less in 2011 estimated payments, driven partly by the ability to utilize net operating losses acquired as part of the Youbet acquisition as well as the deductibility of intangibles acquired in the Harlow's transaction.

Derby collections also improved by approximately \$5.2 million. About half of this was delayed collections from 2010. Driven by a process change requiring season boxes and Turf Club memberships to be paid prior to Derby ticket invoicing. The other half is driven by improved economics of the Derby from sponsorships, licensing and admissions, which will be recognized in our second quarter operating results.

Spending for additions to property and equipment was \$5.5 million in the quarter. \$4.6 million of this amount was for maintenance compared to \$3.6 million in the prior year. We still expect to spend approximately \$20 million on maintenance capital in 2011. And the last schedule, if you could turn your attention to the schedule titled Condensed Consolidated Balance Sheets, I'll briefly review some changes.

Accounts receivable decreased \$18.2 million from a year earlier as a result of the collections of Derby related receivables from year end. The decrease in income taxes receivable reflects the receipt of \$8.5 million of overpayments made in 2010. Net property and equipment decreased \$5.5 million as depreciation of \$11 million was greater than the new additions of \$5.6 million.

Deferred revenue increased \$25.6 million since December as a result of additional first quarter billings of Derby related and live race [ph] meet (17:24) memberships that will be recognized as revenues in subsequent quarters. Long-term debt decreased \$41.2 million reflecting repayments from our free cash flow.

With that I will turn it back over to Bob for some final comments. Bob?

Robert L. Evans, Chairman-elect and Chief Executive Officer

Thanks Bill. Before, we take your questions let me run through some interesting facts about this past Oaks and Derby week. The material information here is included in our filings. The rest of this is just some fun facts about the past week. As I said earlier, we set an all time record for Derby attendance at 164,858, eclipsing the previous high set in 1974 at the 100th Anniversary of the Derby. Total Oaks and Derby week attendance that is from opening night on Saturday, April 30th through the Derby itself on Saturday, May 7th was 359,690, up 8.6% over the comparable 2010 period.

As I mentioned earlier, the big kicker was Opening Night which produced 38,142 in attendance, about 25,000 more than 2010's opening day. Oaks day wagering from all sources totaled a record \$37.5 million, up 4% from last year. Derby day wagering from all sources was \$165.2 million, up 1.5% from last year and the third highest in history.

Wagering via TwinSpires.com, on both Oaks and Derby days was up 8% and new account setups on TwinSpires.com were up 47%. Preliminary overnight TV ratings showed about an 8% decline for the Oaks and about 6% decline for the Derby. While we were a little disappointed in that we are pleased in that we were able to expand both the quantity to 14.5 hours and quality of NBC Sports coverage on VERSUS an NBC over the previous years.

We continue to engage more and more fans online. Page views at our KentuckyDerby.com and KentuckyOaks.com websites were up 46%. Derby Nation, our social community on Facebook now exceeds 157,000 people and our Kentucky Derby App introduced just this year was downloaded by over 146,000 iPhone, iPad, and Android phone users.

If you haven't downloaded the App, I suggest you do so. Your kids will love the choose your Derby hat game, they'll love to try on various Derby hats and then you can take pictures that you could send to grandma.

In my Don Quixote like quest to actually make these earning calls more fun, let me suggest that you also take a moment and check out two features on kentuckyderby.com. First is the Derby cam which is sponsored by a new sponsor this year, apparel maker Vineyard Vines. Derby cam allows you to find and tag nearly every one of the 164 plus thousand people who attended this year's derby. It's quite a spectacular interactive image.

In the second feature called Trakus, is one where you can experience digitally, what it's like to ride this year's Derby winner, Animal Kingdom, from the starting gate to the finish line in the actual race. It takes two minutes and two seconds to do so and you do not need to weigh under 115 pounds to make this digital ride.

We are very proud of the charitable elements of Oaks and Derby week that we introduced three years ago with the pink-out on Oaks day benefiting the Susan G. Komen organization and the Horses and Hope program, which is backed by Kentucky's First Lady, Jane Beshear, and the Kentucky Cancer Program. Both are focused on breast cancer awareness and cure. In addition our Taste of Derby event, which goes on Thursday and began just last year benefits various hunger relief charities throughout the world.

Attendance at Taste increased from 760 last year to 1,245 this year. All told, Oaks and Derby week has generated over \$600,000 in charitable contributions to these worthy causes over the last three years. The only Derby day downer was that our \$100,000 dream bet winner didn't pick the winning horse. You'll recall that last year's dream better Glen Fullerton picked the winner Super Saver and at odds of eight to one, Glen headed back home to Houston with \$900,000.

This year's dream better, Dave Flores of Chicago, produced \$100,000 on Mucho Macho Man who unfortunately for Dave finished third. Had Mucho Macho Man won, they would be slightly over \$1 million richer today. In our opinion, Oaks and Derby Week 2011 was a terrific success. In terms of EBITDA, our preliminary analysis is that we will generate between \$5 million and \$6 million more EBITDA than we did in 2010. Greater sponsorship and admission revenues were the primary causes of the year-over-year increase with greater TV rights fees, wagering commissions, food and beverage and license to merchandise also showing positive variances as well.

Based on our preliminary data, we do not believe that any component of Oaks and Derby Week EBITDA will show a decline in 2011. Finally, I want to thank the over 11,000 full and part-time employees who make Oaks and Derby Week happen, our hundreds of suppliers and business partners, and most importantly the millions of fans throughout the world [duplicate phrase deleted] (22:52) who make the Kentucky Oaks and The Kentucky Derby so special. Thanks to all of you.

[ph] Devon (22:54) will now be happy to take questions.

— QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator instructions] Our first question comes from Steve Altebrando of Sidoti & Company.

<Q – Stephen Altebrando>: Hi, guys. How are you?

<A – William E. Mudd>: Good morning, Steve.

<Q – Stephen Altebrando>: Does the five to six million increase in EBITDA, is that at property level only, does that exclude any TwinSpires' benefit?

<A – William E. Mudd>: Correct. That's only at the Churchill Downs race track level.

<Q – Stephen Altebrando>: Okay. Okay and – sorry, are you seeing any meaningful benefit from, there has been some OTB closures particularly in New York City. How that benefited TwinSpires on the Derby or in the quarter?

<A – William E. Mudd>: Yeah, I mean there is a lot of factors that [unintelligible] (23:55) those are both, but I can't say definitively that we saw one way or the other, Steve.

<Q – Stephen Altebrando>: Okay, and online poker, just wanted to get your thoughts I guess initial thoughts now, if how you would be looking to kind of go about that to attack online poker?

<A – Robert L. Evans>: Well I think I said in our last conference call that, at the point in time where online poker or any other online I-gaming is legalized at the state or federal level, we'll be ready to play in that market. So our plans are put together. We're ready to go. We just need the legislation to legalize the activity.

<Q – Stephen Altebrando>: Okay and then just a two last ones. If you have an update on Illinois, slots at tracks and then lastly use of cash you guys are pretty much in a position to be generating really a ton of cash and what you're going to do with that if there is any thought about increasing the dividend?

<A – Robert L. Evans>: We look at the dividend every year. We usually do that later in the fall so there is no decision taken at this point of time on that. As far as Illinois is concerned, we are optimistic but we don't have any particular reason to believe that we have got any insight that would tell us yeah or nay, whether that's going to move forward, but we're hopeful and perhaps we will get the right legislative action this year.

<Q – Stephen Altebrando>: Okay. Thank you.

<A – Robert L. Evans>: Thanks, Steve.

Operator: Thank you. [Operator Instructions]. Our next question comes from Ryan Worst of Brean, Murray.

<Q – Ryan Worst>: Thanks guys. Good morning.

<A – Robert L. Evans>: Hi, Ryan.

<Q – Ryan Worst>: Good quarter. Bob, what is the deductible at Harlow's casino for insurance and also I just want to make sure I heard correctly, but business interruption, that only is in place if the casino is actually damaged?

<A – Robert L. Evans>: I'm going to let Bill take this. He is our insurance expert. Bill?

<A – William E. Mudd>: There is two different deductible levels, Steve. If this is deemed to be hundred year flood deductible, a hundred year flood, then the deductible is higher than the normal deductible. That deductible, I think it's safe to assume that it's over hundred year flood, so that deduct would be about \$1.25 million.

<Q – Ryan Worst>: Okay.

<A – William E. Mudd>: And you are correct, we do have to suffer property damage in order for business interruption to occur.

<Q – Ryan Worst>: Okay. And then, where are you guys in capturing all of the synergies from the YouBet acquisition, the \$12 million? Was most of that or how much of that was captured in the first quarter?

<A – William E. Mudd>: Yeah. I think we're largely complete, Steve.

<Q – Ryan Worst>: It's Ryan.

<A – William E. Mudd>: Excuse me, Ryan, I'm sorry. We actually [ph] did (26:52) the Woodland Hills facility in January 31st of this year so that property is now closed. So, if you look at the amount of synergies that were actually in this quarter, it was about \$2.9 million.

<Q – Ryan Worst>: \$2.9 million, okay. And then Bill or Bob, were there any issues in consolidating the platforms, I mean do you think that was the cause us some of the drop in wagering year-over-year and what are your plans for the – if you have any for the Youbet brand going forward?

<A – Robert L. Evans>: We have no announced plans for the Youbet brands so I'll take that one first. We do think we had some customer disruption when we combined the platforms starting back in November. I think we've worked through that, we've seen improved performance month-by-month since that time, and I think with the Derby wagering on a combined basis up about 8%, I think we're probably back to where we used to be.

<Q – Ryan Worst>: Great. Thanks very much.

<A – Robert L. Evans>: You are welcome, Ryan.

Operator: [Operator Instructions]. I'm showing no further questions at this time.

Robert L. Evans, Chairman and Chief Executive Officer

All right. Well, [ph] Devon thanks very much for your help. Everybody thanks for joining us. Happy Derby, see you in a few months. Bye-bye.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may all now disconnect. Thank you and have a nice day.

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