



## Churchill Downs 2007 Fourth-Quarter and Year-End Conference Call Transcript

Operator

Good day, ladies and gentlemen, and welcome to the fourth quarter 2007 Churchill Downs Incorporated earnings conference call. (OPERATOR INSTRUCTIONS). As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's call, Ms. Julie Koenig Loignon, Vice President of Communications. Please proceed.

### **Julie Koenig Loignon - Churchill Downs Incorporated – VP of Communications**

Thank you. Good morning and welcome to this Churchill Downs Incorporated conference call to review the Company's results for the fourth quarter and full year of 2007. 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 Web site titled "Company News" located at [Churchilldownsincorporated.com](http://Churchilldownsincorporated.com). Let me also note that a news release was issued advising of the accessibility of this conference call on a listen-only basis via the 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 fact. The actual performance of the Company may differ materially from what is projected in such forward-looking statements. Investors should refer to statements included in the 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. President and CEO Bob Evans, and Chief Financial Officer Bill Mudd, will begin our call with some formal remarks and then respond to your questions. All of our executive officers are on the call today, and Bill Carstanjen, our Chief Development Officer, Vernon Niven, President of TwinSpires.com, and Steve Sexton, President of Churchill Downs Racetrack will also be available during the Q&A session. With that, I will turn the call over to our CEO, Bob Evans.

### **Bob Evans - Churchill Downs Incorporated - President and CEO**

Thanks, Julie. Good morning, everyone. I feel pretty good about our performance in 2007. We put in place two new growth drivers for our business.

First we entered the advance-deposit wagering, or ADW, business with the launch of TwinSpires.com and the subsequent acquisitions of the AmericaTAB and Bloodstock Research Information Services ("BRIS") companies. Related to our ADW entry was the creation of TrackNet Media Group to manage our content rights, and our acquisition of a 50 percent ownership stake in HorseRacing TV or HRTV.

Next, we entered the alternative gaming business with our temporary, 245-machine slots operation in New Orleans, and we started construction of the permanent slots facility there that will initially house 600 machines. We also put in place the groundwork to win the January 2008 election in Miami-Dade County that will enable us to operate a slots business at our Calder racetrack.

We managed to do this while still producing growth in revenue and EBITDA of \$55 million. While lower than 2006's reported EBITDA, remember that 2006 included \$19.2 million in insurance settlements related to Hurricanes Wilma and Katrina. 2007 included only \$800,000 in insurance settlements, and 2007's EBITDA was negatively affected by the \$2.6 million we spent on our successful political campaign for slots at Calder.

This all got done for a simple reason: we have made considerable progress in putting in place an organization with the capabilities to transform Churchill Downs Incorporated into a growth-driven company. This is no easy feat in the U.S. Thoroughbred industry.

Let me turn this over to our CFO, Bill Mudd, who will take you through our financials. I will then return with a few comments about 2008, and then we will be happy to take your questions. Bill?

## **Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

Thank you, Bob, and good morning, everyone. I will be reviewing the information as set forth in the tables of the press release that can be found under our Company section that Julie referred to earlier, which is at our Web site, [www.churchilldownsincorporated.com](http://www.churchilldownsincorporated.com). Following my comments, I'll turn it back over to Bob for some final comments before we open the call to Q&A, in which Bob, Bill Carstanjen, Steve Sexton, Vernon Niven and I will be able to address your questions.

Let's begin by reviewing the segment information, which is contained on the schedule titled "Supplemental Information by Operating Unit" in the release. As a reminder from our previous calls, the discontinued operations section of our financial statements and tables contain the operations of Hoosier Park, which we sold during the first quarter of 2007, and Ellis Park, which we sold during the third quarter of 2006, and Hollywood Park, which we sold in the third quarter of 2005. My comments will focus on our operational performance from continuing operations for the fourth quarter and the full year.

At the net revenues from external customers line, Churchill Downs Racetrack is down \$5.2 million year-over-year, primarily as a result of four fewer race days. These headwinds were partially offset by a stronger Derby Week performance in the second quarter.

At Arlington, net revenues from external customers increased \$5.5 million, primarily as a result of an increase in pari-mutuel business. We experienced an increase in average starters per race, which we believe is partially attributable to the installation of a new Polytrack racing service. In addition, during February and -- January and February, when there is no live racing in Illinois -- the Illinois Racing Board ("IRB") designates a Thoroughbred racetrack as the host track. The IRB appointed Arlington Park as the host track for Illinois for 45 days during portions of January and February of 2007, compared to 37 days during January and February of 2006, which resulted in additional revenues of \$1.2 million during the year.

Our Calder facility had a \$4.7 million reduction in total net revenues from external customers for the year, and a \$2.4 million reduction for the fourth quarter. We conducted our first full quarter of simulcasting with Gulfstream -- cross simulcasting with Gulfstream Park -- during the fourth quarter, while we conducted live racing and Gulfstream Park was dark. We believe this led to a decline in attendance in on-track wagering during our live meet. During the first quarter of 2008, our customers will be given the chance to wager from our facility while we are dark. I will also remind you that total-year results were also impacted by the rainy weather we experienced in the third quarter, which took approximately one-third of our races off the turf.

Our Louisiana Operations' net revenues from external customers increased by \$16.2 million for the year as we experienced growth in all parts of the business. We conducted 48 more live racing days year-over-year, which led to an increase in pari-mutuel revenues as well as associated ancillary revenues. We conducted our first full quarter of slot operations during the fourth quarter, and the results to date have exceeded our expectations, with gross win per unit of \$204, which continues to grow each month as our live race meet helps drive more customer traffic to our location. Our January and February 2008 year-to-date average gross win per unit, per day climbed to \$314.

Other investments include our ADW business, which is branded as TwinSpires.com, and includes our second-quarter purchase of AmericaTAB and our information services business, Bloodstock Research Information Services. Additionally, this segment includes our equity interest in TrackNet Media and HRTV. The revenue increases for the year and for the quarter are driven by the acquisitions of AmericaTAB and BRIS during the second quarter.

Now let's look at the EBITDA performance by segment at the bottom of the page. As a note, the Company modified its method of allocating management fees to the operating segments. As a result, management fees included in EBITDA of the operating segments fluctuated significantly for the three months ending Dec. 31, 2007, as well as the year ending Dec. 31, 2007. I will talk to the changes in profitability excluding the management fee impact, which you can find in the tables of the press release.

Churchill Downs Racetrack EBITDA is down for the year, largely driven by the revenue items previously mentioned. In addition, we recognized severance costs in the fourth quarter associated with the outsourcing of our security department. Arlington Park's EBITDA improvement is driven primarily by the increase in pari-mutuel revenue, as we discussed earlier. In addition, the year-over-year change in purse recoveries versus purse overpayments added \$2.3 million, which we discussed in the third-quarter conference call. We also had a gain on the sale of a piece of land for \$1.7 million earlier in the year.

The Calder EBITDA declined as a result of a number of activities this year. We spent \$2.6 million in the fourth quarter on campaign spending for the successful referendum to conduct slots gaming, which passed at the end of January. We had \$1.9 million less insurance recoveries than in the prior year related to Hurricane Wilma. We also experienced a decline in pari-mutuel revenues, which is partly driven by the cross-simulcasting swap agreement with Gulfstream Park, when Calder was conducting live racing and Gulfstream Park was dark. In addition, pot limits were increased for card rooms in July, creating more competition, which we believe impacted our pari-mutuel activity.

Louisiana Operations EBITDA was down \$11.5 million. This reduction in profit is attributable to the \$16.6 million of insurance recoveries in 2006. It is also -- the reduction is partially offset by an increase in business attributable to 48 additional live race days as we ran a full year of racing, in addition to improvements in our video poker business and the opening of our temporary

slots facility.

In "Other Investments," the EBITDA generated by our ADW business for the year and for the fourth quarter was offset by equity losses in HRTV, TrackNet Media, as well as the allocation of management fees previously discussed. Overall EBITDA dropped by \$14.5 million for the year, from \$69.7 million in 2006 to \$55.2 million in 2007. I will remind you that we recognized \$19.2 million of insurance recoveries in 2006, versus \$800,000 during 2007. Additionally, we spent \$2.6 million on campaign costs in Florida this year.

Now turning to the consolidated statement of net earnings, as Bob mentioned, we grew total revenue -- net revenues from continuing operations by 9 percent, or roughly \$34 million for the full year, and 10.9 percent for the fourth quarter. We believe this is driven by a number of things across our business, as I just highlighted: the result of the ATAB and BRIS acquisitions; the launch of TwinSpires.com; an increase of 48 additional live race days at Fair Grounds; the opening of the temporary slots facility; and the installation of Polytrack at Arlington Park.

Selling, general and administrative expenses increased by 15 percent, or \$6.8 million, versus 2006. This increase is driven by our entry into two new businesses -- the ADW market with the ATAB BRIS acquisitions, and the creation of TwinSpires.com, which added \$4.4 million -- and the entry into the slots gaming business at Fair Grounds, which added \$1.0 million.

Additionally, we spent \$2.9 million on gaming campaigns during the year. We recognized insurance recoveries net of losses of \$800,000 in 2007, compared to \$19.2 million during 2006 sustained during 2005 for Hurricanes Wilma and Katrina.

Interest expense increased primarily as a result of borrowings related to the acquisition of AmericaTAB and BRIS. Equity losses in unconsolidated investments increased during the year, primarily as a result of performance in our investments in HRTV and TrackNet Media. Our effective tax rate increased from 39 percent to 42 percent in 2007, resulting primarily from the non-deductibility of legislative initiative cost.

Our fully diluted earnings per share from continuing operations for the year came in at \$1.23. You will notice in the discontinued operations net of taxes section a loss on the sale of business in the amount of \$1.2 million. This is the result of a tentative agreement with EP Acquisition LLC to settle certain disputes arising from the sale of Ellis Park pursuant to the stock purchase agreement.

Now turning your attention to the consolidated balance sheets in the release. Cash balances are down slightly as a result of the borrowings used to fund the acquisition of AmericaTAB and BRIS. Accounts receivable and accounts payable balances increased largely as a result of our entry into the advance-deposit wagering business, along with increases in our simulcasting business.

Total current assets decreased \$25 million, which is driven by the sale of Hoosier Park during the first quarter. Net PP&E increased by a net of \$22 million for the year. The big capital expenditures for the year related to Polytrack installation at Arlington Park, dorm projects at Arlington Park, a dorm project at Fair Grounds, and the temporary slots facility at Fair Grounds. Other intangible assets and goodwill increases are driven primarily by the acquisitions of AmericaTAB and BRIS. Long-term debt ended the year at \$68 million. This is a result of the acquisitions.

Also of note, on March 10, 2008, we entered into a final settlement agreement and release with our excess insurance carriers relating to our outstanding claims for Hurricane Katrina. The agreed-upon amount of \$17.2 million will cover all outstanding claims. We expect to receive the payment in full by the end of the first quarter 2008.

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

#### **Bob Evans - Churchill Downs Incorporated - President and CEO**

Thanks, Bill. You know I was optimistic that I was about done with the task of explaining the impact of hurricane insurance settlements on our reported financials, but given the \$17.2 million insurance transaction Bill just described, I'm obviously going to be doing that now through 2009. There was a moment here when I thought we would be in real trouble; both numbers would be the same. Fortunately they're not. Last year was \$19.2 million. This year -- \$17.2 million.

Well, there are 50 days to go until the Kentucky Derby, so let's talk about racing for just a minute. We believe there is upside in our core racing business. Granted the industry has been a near zero-handle growth business on an inflation-adjusted basis for a decade. So, just where is the opportunity?

Well, clearly, the industry is consolidating. And as it does so, we believe we can be increasingly successful if we do five things.

One, improve our margins. We made some progress on this in 2007, but not nearly as much as I had hoped. And this is a core area of my and the Company's attention in 2008.

Two, increase our share of handle. Here we are interested in two things -- the amount of handle wagered on our races, regardless of whether the bet is made at our track or another, at our OTB or another, or via TwinSpires.com or another ADW provider; and we're interested in the amount of handle that is wagered via the channels we operate, our tracks, our OTBs, or TwinSpires.com, regardless of whether it's bet on our race or on a race at another track. This combined handle number represents the entire handle on which we generate pari-mutuel commissions, sometimes by producing the product, sometimes by being the distributor, and sometimes by doing both.

We promised earlier this year to include all our handle data in our 10-K report, and if you look there, you'll find the 2007 number was \$3.23 billion, up 8 percent from the \$2.99 billion in 2006. Since the Jockey Club reported that total handle on U.S. Thoroughbred racing declined 0.4 percent in 2007, we are confident that we increased our share of the total last year. We intend to continue to improve the quality of our races and the features and performance of our on-track, OTB and TwinSpires.com channels to try to attract more bettors and greater handle.

I will also repeat the observation here that I made last spring -- handle is nice, but what really matters is how handle converts to revenue. In that regard, we have been quite successful via TwinSpires.com and our TrackNet Media joint venture with Magna Entertainment, in increasing what is known as the host fee, which is paid to TrackNet Media tracks and the horseman who put on the races that produce this handle.

Three, we need to continue to provide a high level of service to customers and horsemen. Customer service last year increased 2.8 percent across all four tracks as measured by our mystery shopper program. Arlington Park was our top performer with a 5.5-percent increase.

Four, don't forget that one of the primary reasons we entered the ADW business with TwinSpires one year ago is that we believe the Internet holds the greatest potential to bring new fans and customers to Thoroughbred racing. We have invested over \$80 million in our ADW business so far. We have built a world-class team of online business experts in the center of the technology universe, Mountain View, Calif. And with the launch now behind us, with the integration of the acquired companies complete, and with the content battles now resolved in our favor, we're now ready to introduce some pretty interesting things that, we believe, will make racing more exciting to existing and new fans and customers.

And five, be the best at marketing, both product marketing, that is creating new things to sell, and marketing communications, that is advertising and promotion. On this last point, let me use the upcoming Kentucky Oaks and Kentucky Derby to highlight some of the things we are doing in marketing.

We have just launched the first Kentucky Derby Party Web site, where we expect to engage tens of thousands of new racing fans. Celebrity Chef Bobby Flay is this year's official Kentucky Derby Party host. And we've had over 700 people sign up so far as party hosts -- from Puerto Rico to Hawaii -- in the first week since we launched the site. There is a map on the site that shows where all these parties will be located. You can check it out at [Kentuckyderby.com/party](http://Kentuckyderby.com/party), where you can buy invitations and other party supplies, set up a TwinSpires.com account and wager from your party, and where you and your party guests can win tickets to the 2009 Kentucky Derby.

We are sponsoring the distribution of a unique and award-winning documentary titled *The First Saturday in May* in 18 major cities this spring. The film chronicles the trials and tribulations of the connections of several Derby contenders leading up to Barbaro's compelling Derby victory in 2006. You can check that out at [Thefirstsaturdayinmay.com](http://Thefirstsaturdayinmay.com).

The Thursday and Friday Kentucky Oaks day before the Derby will get bigger and better this year, too, with additional concerts and other new things to do. And if you're looking for tickets to this year's Oaks and Derby, well, good luck, because our ticket inventory 50 days out is essentially gone. But if you simply must come, there are still some luxury packages available via Quint Events. You can check them out at [Quintevents.com](http://Quintevents.com). And if that exceeds your budget, there will always be general admission available.

One of the things you will want to check out while you are here, or at a Derby party, or watching from home on NBC, is the Derby Red Carpet Show, which will air on NBC prior to the 90-minute Derby broadcast. This show, which we started last year, and which pulled a 2.7 Nielsen rating, will be bigger and better in 2008, with more celebrities, greater focus on Derby fashion, and, most importantly to us, more sponsors. The Derby Red Carpet Show is but one example of the newfound enthusiasm we have jointly developed with NBC to make the Derby an even more successful television product. NBC has been great to work with and will bring a number of new features to this year's telecast.

Finally, there is my own personal favorite, a You Tube-based nationwide contest to find the Derby's first Chief Party Officer. The Derby CPO will rule the infield at this year's Kentucky Derby 134. You can submit your 90-second video resume via You Tube starting next week.

Okay, this is all fun, but there are a serious set of objectives in all this. First is to promote the Oaks and the Derby and the NBC telecast. Second is to create new sponsorable assets -- the Red Carpet Show on NBC, the Derby Party Web site, and the Chief Party Officer. Third is to create new TwinSpires.com customers. And fourth, across all these initiatives, to appeal to a younger

demographic group.

Before we conclude, one other thing. Back in January I promised you an update on our slots plans at Calder. As I'm sure most of you know, we were successful in winning the Jan. 29 election in Miami-Dade County. While we're very much thrilled with that victory, I want to assure you that we are very much aware that the gaming market in South Florida is highly competitive, and that the gaming sites operated there by Native American Indians are at a huge advantage in that they pay significantly lower tax rates.

I said in our Jan. 30 press release following the election that "Thoroughbred racetracks without slot machine gaming are at a significant disadvantage when it comes to providing the competitive purse programs that attract the number of horses required to conduct high-quality racing." I still believe that is absolutely true. Those racetracks without alternative gaming are going to find it incredibly difficult not just to compete, but ultimately to survive. I would like to thank our employees, the elected officials, and the citizens of Florida and Louisiana for supporting us. Florida and Louisiana are, clearly, open for business when it comes to Thoroughbred racing and gaming, and we continue to look for ways to invest and grow in those states.

The Legislature in Florida is considering a significant reduction in the tax rate paid by slot operations there. This lower tax rate would, as the legislation is currently drafted, apply to our future slot operation at Calder. So while we have completed an extensive amount of research and analysis of what we believe we should do at Calder, we want to delay any announcements until after the tax rate change matter has been resolved, and until after we have had time to fully evaluate the impact. I trust that delay makes sense to all of you.

Finally, the legislatures in Kentucky and Illinois continue to debate gaming bills that would enable us to operate slot machines and potentially other casino games at our racetracks there. As I said before, my racing handicapping skills are poor; my political handicapping skills are even worse. So while we are optimistic about our chances in both states, there are numerous twists and turns on the road ahead.

We will now be happy to try to answer any questions that you might have.

**Operator**

(OPERATOR INSTRUCTIONS). Steve Wieczynski, Stifel Nicolaus.

**Steve Wieczynski - Stifel Nicolaus - Analyst**

First, can I get -- what were the total live race days for the fourth quarter this year versus fourth quarter last year?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

Give us just a second to look that one up. We've only got 10 people in the room here, so somebody should be able to find that number.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

We have got it. It's just going to take a second.

**Bob Evans - Churchill Downs Incorporated - President and CEO**

It's actually a math problem.

**Steve Wieczynski - Stifel Nicolaus - Analyst**

Do you want me to move on and ask something else?

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

No. There's actually three -- in current year live race days at three tracks were live, it's 115 race days. And in the prior year -- the math works here -- 112 race days.

**Steve Wieczynski - Stifel Nicolaus - Analyst**

Would you possibly have a CapEx forecast for 2008?

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

Yes. This excludes the amount we'll spend on the Florida campaign. As Bob said, we're in the process of evaluating what we're going to do there.

**Bob Evans - Churchill Downs Incorporated - President and CEO**

...that we would spend on building a slot operation.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

Exactly, related to the slot operations. Right now it looks like \$44 million. And of that, roughly \$25 million remains from the slots project in Fair Grounds.

**Steve Wieczynski - Stifel Nicolaus - Analyst**

Bob, you touched on this just briefly, but going back to Kentucky, there's been multiple -- the governor has kind of thrown out a couple of different ways in terms of how gaming would get in there. I think the last one; one of the legislators there basically said they would like to do it just at racetracks. I mean, can you just dive a little bit more into have you had discussions with the legislators there, and kind of what is going on from your side?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

Yes, we've had extensive, extensive discussions with legislators and others. I think there are so many issues in the mix here, many of which have nothing to do with gaming whatsoever -- other issues of governance in the Commonwealth of Kentucky. Those other issues are, in my view, getting in the way of getting a gaming bill done. And until all that gets resolved, budget issues, etcetera, I don't think we're going to make any progress. But I'm hopeful here that people will come to deal with this issue sometime yet during this legislative session. I think the most important thing to tell you is that the issue being discussed and debated isn't whether we should have gaming or not, it's a whole bunch of other issues of a political nature that are affecting progress on the gaming bill.

**Operator**

Ryan Worst, Brean Murray.

**Ryan Worst - Brean Murray - Analyst**

Just a couple of questions. First, on the ADW front, it looks like -- and the joint venture -- it looks like revenues were up in the fourth quarter versus the third quarter, but EBITDA was down. Could you just kind of explain a little bit more about that and that dynamic?

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

First of all, let me point out that EBITDA as represented in the table of the press release, if you look at the management fee table, you will see that in the fourth quarter we changed our management fee allocations to include revenues associated with our ADW business. So if you look at that, it includes -- the fourth-quarter results include a \$1.1 million management fee allocation. So if you look in the third quarter, we didn't have any management fees associated with the other investments line in the EBITDA section, so you need to take that into consideration.

**Ryan Worst - Brean Murray - Analyst**

Okay.

**Bob Evans - Churchill Downs Incorporated - President and CEO**

The other thing I'd add to this is just put it in a slightly longer historical context, although that is only a year -- we launched TwinSpires in May of last year. Obviously, now it's clear that we were also in discussions to acquire the AmericaTAB and Bloodstock Research companies. But when we launched TwinSpires.com, we didn't know if those were going to get done or not. There was no way to know. And then in June we acquired those businesses. And via TrackNet Media, we have been in the process of trying to acquire additional content for our ADW platforms. At the time they were multiple back in June, July and August. And because we didn't have some California tracks, and because we didn't have New York tracks during the second half of last year, we were in a pretty tough position in terms of content availability for our customers.

We then put all of the platforms together under the TwinSpires brand in November of 2007. And effective the first of this year -- I won't go through every sequence of events -- but we also at that point, beginning of January 2008, we had access to New York content and the California track content. So the quarter-to-quarter numbers are kind of helter skelter in 2007, simply because so many different things were going on and changing. So where we are right now is we have one platform, TwinSpires.com, out there, we have got the most sought-after content in the industry, and the business is doing quite well

**Ryan Worst - Brean Murray - Analyst**

Now that you have the New York content, is there any major content provider that you're missing from your ADW platforms? Are you pretty much set with the infrastructure, or would you look at other acquisitions in the space?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

I can answer the second one simply by saying, obviously, we don't want to comment on what we may or may not do with respect to acquisitions. On the former issue, there are two sort of boutique meets of very premium content, not a lot of racing days, but good quality product -- Keeneland, which runs for 15 days in the spring and in the fall; and Del Mar, which runs during the summer. So we're optimistic that we will be able to secure access to those as we go forward.

**Ryan Worst - Brean Murray - Analyst**

Bill, do you have a CapEx number for the fourth quarter?

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

CapEx number for the fourth quarter only?

**Ryan Worst - Brean Murray - Analyst**

Yes.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

We can get that after the call, at least by comparing the...

**Ryan Worst - Brean Murray - Analyst**

And also, I think it would be helpful if you guys kind of restated the quarters with the new corporate allocations, so we could kind of compare '08 to '07 when we get there.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

Yes. We'll do that as we go through 2008.

**Ryan Worst - Brean Murray - Analyst**

How many days are you -- is Arlington Park designated as the host track in '08?

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

Number of days in '08?

**Ryan Worst - Brean Murray - Analyst**

Yes.

**Bob Evans - Churchill Downs Incorporated - President and CEO**

You guys are doing a good job of playing stump the executives today.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

I know that it's more in '08, but I don't know exactly --

**Ryan Worst - Brean Murray - Analyst**

It's more in '08 than '07?

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

Yes. I think it's 11 more, but I'm not -- I've got to go back and double check.

**Ryan Worst - Brean Murray - Analyst**

And then another question pertaining to the fourth quarter. You mentioned some kind of severance expense at Churchill Downs in the fourth quarter.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

It's 16 incremental days. I apologize for stopping you. 16 incremental days, host days for '08, as disclosed in the 10-K.

**Ryan Worst - Brean Murray - Analyst**

Is the severance amount significant at Churchill Downs in the fourth quarter? I was wondering what that was.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

\$0.3 million, roughly.

**Ryan Worst - Brean Murray - Analyst**

Could you guys talk about the difference you are seeing in the level of slot play at the Fair Grounds on race days versus non-race days? Is there a significant fall-off there? Is traffic building on the non-race days as well as the race days? And then...

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

I'm sorry, go ahead.

**Ryan Worst - Brean Murray - Analyst**

My final question was going to be on Calder, and whether or not you guys are going to be able to offer poker when you get slot machines there.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

I will take the former. The former is we have only been in operation on slots, as you know, since early or late -- excuse me -- third quarter. So I would say that we don't have enough data points at this point to say what the crossover is between -- what the difference is between a live race day versus a dark day. So that's something we'll look at as we go forward. On the latter...

**Bob Evans - Churchill Downs Incorporated - President and CEO**

We can and plan to do poker at Calder.

**Operator**

Steve Altebrando, Sidoti & Co.

**Steve Altebrando - Sidoti & Co. - Analyst**

I just want to make sure, because some of the segment data was skewed a bit, on an apples-to-apples basis, is Louisiana basically up about \$1.5 million in EBITDA in the fourth quarter?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

Louisiana meaning racing, video poker...

**Steve Altebrando - Sidoti & Co. - Analyst**

Everything.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

I guess if you adjust for -- I can give you the numbers. We did have hurricane recoveries in Louisiana of \$6.3 million in the prior year, which we did not have in the current year. And then management fee change for Louisiana. Louisiana had a favorable impact as a result of the management fee change of \$3.8 million.

**Steve Altebrando - Sidoti & Co. - Analyst**

In this year's quarter?

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

In this year's quarter, correct.

**Steve Altebrando - Sidoti & Co. - Analyst**

So basically, now you're seeing a ramp of slot revenue up about 30 percent from there?

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

I don't know what you're using as your numerator or denominator.

**Steve Altebrando - Sidoti & Co. - Analyst**

My next question really is about the ADW/HRTV segment. The return to me is pretty concerning. I mean, you basically spent \$80 million on this investment. I realize the ADW is probably adding to earnings, but to me, they kind of go hand in hand, the HRTV and ADW. And as of right now, these are basically not contributing anything to EBITDA.

**Bob Evans - Churchill Downs Incorporated - President and CEO**

Have some patience. I don't mean to be cute, but the second half of last year there was a lot of stuff going on. The business is doing quite well, and I think as we go forward we'll see that.

**Steve Altebrando - Sidoti & Co. - Analyst**

Is there a way you could give some sense of what the breakout is between how HRTV is impacting ADW? You know, a sense of what the dilution is there?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

No.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

I would say the dilution -- go ahead, Bob.

**Bob Evans - Churchill Downs Incorporated - President and CEO**

Getting into the ADW business last year and getting into the slots business at Fair Grounds, we have created some challenges in how we do our segment reporting. We're working diligently on that with the advice of outside counsel, auditors, etcetera. So I think this will become -- I think the performance of the business and its various segments will be increasingly clear as we go forward. But I don't want to start breaking out historical data that we haven't reported publicly.

**Steve Altebrando - Sidoti & Co. - Analyst**

How about -- I'll put it this way. Are you committed to HRTV indefinitely in its current form? That seems like it's really eating into any profits from the ADW. Is this something you plan on addressing?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

The arrangement we have on HRTV is a three-year deal. We're about one year into that at this point. There's a lot going on in the technology of delivering live video to consumers. There are many new options of doing that via the Internet, many of which are lower-cost. And we're going to look at all of those opportunities to figure out what's the best way to do it. So, without getting into a whole lot more detail, hopefully that answer at least addresses what I think is underlying your question.

**Steve Altebrando - Sidoti & Co. - Analyst**

Does that mean you can't walk away for another two years from it?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

That's correct. I will say -- and I think we have disclosed this -- that our share of the losses in that arrangement are capped during the term of the deal, so it's a fixed number that we know in advance.

**Steve Altebrando - Sidoti & Co. - Analyst**

Who is playing the biggest part in managing this, you, or Magna, or split? Hopefully you guys -

**Bob Evans - Churchill Downs Incorporated - President and CEO**

It's split. We each own half.

**Steve Altebrando - Sidoti & Co. - Analyst**

But as far as managing the day to day, is there anyone more influential?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

Not really.

**Steve Altebrando - Sidoti & Co. - Analyst**

I guess the last question -- well, two more questions. You mentioned that you are improving economics for the tracks from the ADW business, from the ADW wagering. I guess I'm slightly confused about the strategy, given that you have just spent \$80 million to get into the wagering business. And it seems to me that this could be -- your market share in this business will ultimately be bigger than the four tracks that you operate. I don't know; could you address this, or are you mostly just referring to, really, elimination of TVG?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

I'm not referring to that in any way, shape or form. There's two businesses here. There's the business of producing races and, in effect, selling wagers on those races in the U.S. market. And then there's also the business of being a distributor in the sense of taking wagers, whether that is on our race or on somebody else's race. The ADW business, TwinSpires.com, is basically a distributor business. We take wagers on our own races and on other track's races. So what we're trying to do is improve the performance of both. We're trying to grow our business as a distributor, TwinSpires.com, and we're also trying to improve the race product so that it captures more handle whether the bet is placed via one of our channels or via somebody else's.

**Steve Altebrando - Sidoti & Co. - Analyst**

But it seems, just when you look at the numbers, that it might make sense for the economics to be improving for the ADW. This is the space where you plan on growing.

**Bob Evans - Churchill Downs Incorporated - President and CEO**

I believe you'll see improved economics in the ADW business as we go through 2008. Just remember, 2007 there was a lot going on. For example, we didn't have access to our own Arlington Park signal for TwinSpires.com until mid-August; we didn't have access to our Calder racetrack signal at all in 2007. So it was just a year of many, many transitions, and that is sorted out in ways that we believe are quite favorable to us. And I think you'll see the economic performance that results as we go through this year.

**Steve Altebrando - Sidoti & Co. - Analyst**

I was under the impression that in the fourth quarter you guys were going to see, really, a benefit in content as compared to the third quarter. It looks like the handle is up slightly sequentially. But year-over-year, if you look at AmericaTAB's handle in '06's fourth quarter, it appears that it's down year-over-year. I know Magna had reported that their handle online was up, I think, around 15 percent year-over-year. Do you guys have a sense that you're possibly losing some share in this segment? Are you seeing a defection of any accounts?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

No; actually, quite the opposite. So, without getting into disclosing Q1 numbers, etcetera, we're quite confident that we're growing the number of active customers pretty substantially, and that the amount of business that is being done via TwinSpires.com is growing considerably. The content advantage that we have really didn't kick in until the first of the year, because that is when we picked up the New York tracks as well. And of course, we also have all the TrackNet tracks. Sort of most important right now, we have Gulfstream and Fair Grounds. So we're pretty happy with where we are in the content side of the business. And like I said, a little patience here, I think you'll see some numbers that confirm your expectations.

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

Just for the benefit of those on the call, there was a question earlier on the change in host days for Arlington Park in 2008. The number we provided was only for the month of February. If you look at the total for the year, it's actually only up two days, from 47 days in 2007 to 49 days in 2008. I apologize for that clarification.

**Operator**

(OPERATOR INSTRUCTIONS). Tim Rice, Rice Voelker.

**Tim Rice - Rice Voelker - Analyst**

I have two questions, the first related to HRTV. Can you give any update on progress on improved greater distribution, specifically DirecTV?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

There aren't any changes at the moment. There's sort of nothing new to say there.

**Tim Rice - Rice Voelker - Analyst**

The second question related to your comments about your expectation of getting Keeneland and Del Mar for ADW. Do you also expect to be getting Keeneland and Del Mar for HRTV?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

Don't really know. I don't think I said expected to get them; I just said that I hope that we'd be -- those signals would be made available to us. And it really depends on what Keeneland and Del Mar want to do. So we could just take the signal for wagering purposes. We could take it for television and wagering purposes, or whatever arrangement they might be interested in doing.

**Tim Rice - Rice Voelker - Analyst**

Are they restricted under any contractual agreements with TVG now, or have those expired?

**Bob Evans - Churchill Downs Incorporated - President and CEO**

Obviously, I don't have all the contracts that they may have signed, but I believe they are under contractual commitment for some time to TVG.

**Operator**

Steve Altebrando, Sidoti & Co.

**Steve Altebrando - Sidoti & Co. - Analyst**

It looks like the EBITDA margin in New Orleans, slot-wise, if I back out some of the numbers, it looks like it was over 30 percent. Is that something -- I'm talking about the slots side only. Is that a number that you think is maintainable for '08?

**Bill Mudd - Churchill Downs Incorporated - EVP and CFO**

I would say, looking at 2007, the win per unit, as we discussed, was in the \$204 average range. And if you look at February quarter to date, it is much higher than that. I would say that we do have some seasonality as it relates to the slots business. We don't really understand what that means yet. But, looking at some of our other folks that are in that business, we would say you tend to see a little bit higher win per unit in the winter months, and a little bit smaller in the summer months. And we also see that on the video poker side of the business as well.

**Operator**

Gentlemen, there are no further questions at this time. I would now like to turn the call back to Mr. Bob Evans for closing remarks.

**Bob Evans - Churchill Downs Incorporated - President and CEO**

Thanks. That's all I've got. I guess the next time we'll talk will be after the Oaks and the Derby. Hopefully we'll have a great next few months, and I look forward to speaking with all of you again. Thanks for joining us today.

**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This concludes your presentation. You may now

disconnect. Good day.