Churchill Downs Incorporated Fourth Quarter and Year-End Results Transcript

Moderator: Liz Harris
9:00 a.m. ET

Operator: Good day, ladies and gentlemen, and welcome to the Churchill Downs Incorporated fourth quarter and year-end results conference call. At this time, all lines are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will be given at that time. If anyone should require assistance during the program please press star then zero on your touchtone telephone. And, as a reminder, this program is being recorded.

I would now like to turn the program over to Ms. Liz Harris, who will now read the Safe Harbor language. Ms. Harris, you may begin.

Liz Harris: Good morning, and welcome to this Churchill Downs Incorporated conference call to review the Company's results for the fourth quarter and year-end 2009. The results were released yesterday afternoon in a news release and have been covered by the financial media.

A copy of this release announcing results, as well as 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," and is located at ChurchillDownsIncorporated.com. Let me also note that a news release was received advising of the accessibility of this conference call on a listen-only basis on 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 otherwise are not statements of historical fact. The actual performance of this Company may differ materially from what is projected in such forward-looking statements.

Investors should refer to statements included in reports filed by the Company with the Securities & Exchange Commission for discussion of additional information concerning factors that could cause our actual results of operation to differ materially from the forward-looking statements made in this call.

This information is being provided today as 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.

Members of our Executive Team are here and will be available to answer questions after some formal remarks.

We will begin now with our President and Chief Executive Officer, Bob Evans. Bob?

Bob Evans: Thanks, Liz. Good morning, everyone. We appreciate you taking the time to join us today for this discussion of our financial performance in 2009 and for the quarter ending December 31st, 2009.

After a few comments, I'll turn this over to our CFO, Bill Mudd, who will take you through our financial statements in more detail. And after that, we'll be happy to take your questions.

I'll start with three general comments about last year. First, the value of our efforts to diversify our business became evident during 2009. We launched TwinSpires.com in 2007 and opened Fair Grounds Slots in 2008, so let's use 2006 as our base year. Since 2006, U.S. Thoroughbred handle has declined 17 percent according to The Jockey Club. We've increased revenue every year since 2006 at more than a 5 percent annual compounded growth rate after taking acquisitions into account.

We announced last November the signing of a definitive agreement to acquire Youbet.com. Also last November, we announced Churchill Downs Entertainment Group's first event, the HullabaLOU Music Festival. And in January of this year we opened the new Calder Casino. So we hope the pieces are in place to continue this diversified growth trend in 2010.

Second, we made the Company stronger. Despite a serious recession and despite declines in the U.S. Thoroughbred industry that have resulted in the two largest track operators, Magna Entertainment and the New York Racing Association, and the largest off-track betting operator, the New York OTB, all filing for bankruptcy protection, we've continued to grow while prudently managing our balance sheet.

After spending $87 million on the AmericaTab and Bloodstock Research Companies in 2007, after spending $34 million between 2007 and 2009 on the Fair Grounds slots operation, after spending $27.5 million on the acquisition of 66.8 acres of land at Arlington Park, and after spending about $66 million through the end of last year on the new Calder Casino, it's a total of about $250 million. We ended 2009 with about $110 million in debt, a reasonable 1.7 times our trailing 12-month EBITDA.

Late last year in the middle of one of the most disruptive periods in the history of the U.S. financial system we put in place a new $275 million credit facility that can be expanded to $375 million at terms we think are favorable. And we believe we now have the financing capacity to continue to grow going forward. And our most important assets, the Kentucky Oaks and Kentucky Derby brands, well, they have never been stronger.

Third, on a relative basis we've done well for our shareholders, using the average daily closing price during the year to reflect the fact that people buy and sell throughout the year, not just on December 31st. On that basis, last year we outperformed Penn National, Mountaineer Gaming, Magna Entertainment, the S&P 500 and the Russell 2000 market indices, and we were within two points of the NASDAQ composite. Of our comparative set, only Youbet.com did meaningfully better for shareholders last year.

Over the longer term, since 2006, CDI common stock is down 11 percent comparing our 2009 daily average closing price to the 2006 daily average. While we were down 11 percent, the NASDAQ was off 19 percent, Penn National off 27 percent, the S&P 500 off 28 percent, the Russell 2000 down 29 percent, YouBet down 47 percent, Mountaineer down 78 percent, and Magna down 96 percent.

Now, on a personal basis, since I'm paid primarily in equity, I'm not all that happy with our stock price, but compared to my other personal financial investments, CHDN doesn't look so bad over the last three years.

Let's take a look at the performance of our different businesses in 2009, starting with our racing business. Since the $15.2 billion peak in 2003 U.S. Thoroughbred handle has declined $2.9 billion or 19 percent, according to figures published by The Jockey Club; $1.3 billion of that decline occurred in 2009 as industry handle was off 10 percent last year, compared to 2008. We did slightly better than the industry in 2009. CDI handle from racing operations was off 8 percent.

And at the revenue line, things were even a little less negative. Total racing revenues from continuing operations, which include pari-mutuel commissions, admissions, food and beverage, et cetera, were off 6 percent when compared to 2008. There is no early evidence that things will improve with racing in 2010. We only have January data so far, but U.S. Thoroughbred handle was off another 12 percent in the first month of the year, according to The Jockey Club, and I doubt February will look much better.

Despite these trends in handle, we continue to make important investments in our racing business. And to highlight just a few, by this Spring, all video of our races at all of our tracks will be broadcast in high definition format. Other than Keeneland Racetrack, our tracks are the only tracks with high definition video. We will have installed track lighting at Churchill Downs Racetrack, and we will conduct six nights of night racing this year.

We are funding the televising of six Kentucky Derby prep races over three weekends in March and April on NBC Universal Networks. We intend to work over the next several years to try to make the kind of successful programming changes to those racing telecasts that we have been making to the Kentucky Oaks and Kentucky Derby telecasts.

We've taken a leadership position on safety in racing, and all of our tracks are fully accredited by the NTRA's Safety and Integrity Alliance. And we have developed what we believe is a very productive onsite, online marketing model that integrates the marketing activities of our tracks and other tracks with our online Twinspires.com business, to grow racing's customer base.

These initiatives alone represent over a $10 million investment in racing. However, making these types of investments, not to mention the considerable capital investment required just to maintain our tracks, cannot continue in the absence of a business model that provides an adequate return on capital.

U.S. Thoroughbred racing can be a profitable business that earns its cost of capital, but likely, only on a much smaller scale. In the absence of some other form of revenue or subsidy or willingness on the part of track owners to simply eat the losses, the necessary determinant of which tracks survive and which won't, will be who has the right to conduct casino gaming. We have that right at Fair Grounds and Calder. We don't at Arlington Park and Churchill Downs. We will take a very careful look this year at the long-term economic viability of our racing assets and their potential alternative uses.

Let's move next to our online business. Closely related to racing is our online business, specifically our advanced deposit wagering, or ADW business, TwinSpires.com, our Bloodstock Research Information Services or BRIS handicapping and breeding information business, and our 50 percent ownership interest in the HorseRacing Television Network, HRTV, and its online counterpart, HRTV.com. Online business handle was up 41 percent last year, compared to 2008. Our online business revenue from continuing operations was up 32 percent, and EBITDA was up 121 percent.

I am very grateful, and I sincerely want to thank all of the over 200 full time equivalent employees at TwinSpires.com and BRIS' offices in Mountain View, California, and Lexington, Kentucky, at HRTV at Santa Anita Racetrack in California, and at the outsourced software development, outsourced customer call center, and outsourced data center companies we use in conducting our on-line operations, and the finance, IT, HR, and legal folks at our corporate offices in Louisville, who support this business daily. You all contributed to a great year for TwinSpires.com.

Youbet.com. As you know, we announced on November 11th our intent to merge TwinSpires.com with Youbet.com. Here's the timeline of that transaction to date. We filed our Hart-Scott-Rodino, or HSR Act Pre-Merger Notification with the Federal Trade Commission and the Department of Justice, on November 25th, 2009.

On December 24th, at the request of the DOJ, the agency to which the transaction had been assigned, we voluntarily pulled and re-filed our HSR notification in order to give the DOJ more time to review the deal.

On January 25th, 2010 the DOJ issued what's called a Second Request For Information and Documents related to the merger. We and YouBet are in the process of assembling our respective responses, and we plan to submit them within the next several weeks. The parties are also talking informally with the DOJ staff to try to address the agency's questions in a more focused manner.

On December 23, we filed our S-4 Registration Statement with the Securities & Exchange Commission. The S-4 registers the material information related to a merger or acquisition. The SEC has since advised us that the S-4 became effective on February 25th, 2010.

YouBet has now scheduled its shareholder's meeting and the shareholder vote on the merger for April 6th, 2010 in Woodland Hills, California. And, in addition, we have reached a settlement with the YouBet shareholder plaintiffs who had filed complaints related to this transaction. This settlement is subject to court approval and certain other conditions.

We are agreeing to modify our disclosures, and there will be a limited payment of attorneys' fees and expenses that we expect will be made by an insurance carrier. We are finalizing the paperwork, and we'll be seeking the required court approvals, which we expect to obtain. Subject to approval of Youbet Shareholders, the receipt of required Regulatory approvals, and other customary closing conditions, the transaction is expected to close in the second quarter of 2010.

Turning now to our gaming business, our gaming revenues were up 23 percent in 2009 due to the effect of the full year operation of the slots business at our Fair Grounds Race Course, which opened in November 2008.

Fair Grounds' slots had a very solid year, generating $10.7 million in EBITDA on what was a $34 million investment between 2007 and 2009. EBITDA from Fair Grounds' slots increased $4.4 million or 70 percent compared to 2008.

Our video poker business across New Orleans more closely followed the slow-down in the U.S. gaming industry and, more specifically, the declines in New Orleans and Louisiana. Video poker revenues from continuing operations were down about 4 percent for the year.

We opened the Calder Casino on time and under the $85 million budget on January 22nd. Congratulations to Tom O'Donnell and the entire Calder Team, for making this happen. I know they are particularly proud of being the only casino to pass the Florida State pre-opening inspection on the first try.

We said in our Q3 earnings call on October 29th, that the Calder Casino would produce about $80 million to $100 million in annual full year gross gaming revenue. We've now been open a little over five weeks, and we're still comfortable with that range. We would caution those who are looking at the early numbers filed with the State of Florida of three things:

First, we did no marketing, whatsoever, prior to the first weekend of operations since we didn't know if we would pass inspection on the first attempt. We now have over 45,000 customers in our database, and we can begin direct marketing in earnest.

Next, in the second weekend of operation, we had the NFL's Pro Bowl at the adjacent Sun Life Stadium to contend with, and in the third weekend of operation we had the Super Bowl, also at Sun Life Stadium. So we've had three, let's call them 'normal' weekends out of six so far, which isn't much data to base any analysis on, but we are pleased that we are seeing sequential increases each week.

And, finally, for those who are looking at our gaming EBITDA numbers for Q4 and for the entire last year, remember that we incurred a little over $3 million in pre-opening costs throughout 2009, prior to the opening of the Calder Casino. These costs will not re-occur going forward.

Next, our newest business, the Churchill Downs Entertainment Group. We announced on November 30th that CDE would launch its first event, the HullabaLOU Music Festival, this summer on July 23, July 24, and July 25. The talent lineup for HullabaLOU is now about complete, 65 world-class acts on five stages over three days.

We are pleased with early ticket sales, and I believe we've sold 19 percent of our inventory so far, with five months still remaining before the event. And we started our HullabaLOU marketing efforts just this month. CDE is also developing other entertainment concepts that we will announce later this year.

Let's spend just a minute on this year's Kentucky Oaks and Kentucky Derby, which are now 58 and 59 days away. As you know, Kentucky Oaks and Kentucky Derby ticket sales and collections are running ahead of last year's pace, including sales of our temporary corporate hospitality space. In addition, we launched our online ticketing system in late Q4, and have sold over $1 million online already, in 2010 night racing tickets, Oaks and Derby tickets, and tickets to our new premiere food event on the Thursday night before Derby, which is called 'Taste of Derby'.

I'm going to make a few comments specifically about the fourth quarter; the three things of note about Q4. Our video poker business in New Orleans deteriorated markedly in Q4 compared to the first nine months of the year, due mainly to the downturned economy in Louisiana and increased competition from truck stops. This trend continued in January, but the business picked up nicely in February.

Racing continued to struggle in Q4 as it had throughout the year. In Q4, Churchill Downs ran five fewer days and Calder ran four fewer days, but we were still surprised with the weakness in our Q4 racing performance. This trend has unfortunately continued into early 2010.

Finally, we incurred in excess of $3 million in unusual costs in Q4. Pre-opening costs related to the Calder Casino, which as I said earlier totaled a little over $3 million for the year and on to about $1.8 million in Q4. And we spent about $1.4 million in legal and other professional fees in Q4 related to the YouBet merger, protecting our business in light of various actual and pending bankruptcies across the thoroughbred industry, and in pursuing the so-called 'Molaro Bill' money in Illinois.

Let me give you just a quick explanation on this Molaro Bill matter. Officially this is known as the Illinois Horseracing Equity Trust Fund, or HRETF, which, thank goodness, is why we call it the Molaro Bill. During the fourth quarter, we received approximately $24 million from the State of Illinois as Arlington Park's share of the money, paid by certain riverboat casinos in Illinois to Illinois' racetracks, pursuant to the 2006 Molaro Bill. $10.4 million of the $24 million will be retained by CDI and Arlington Park, and $13.6 million of the $24 million will be paid to the Arlington Park purse account.

We are holding all of these funds in escrow. They appear on our balance sheet as restricted cash, but they are not yet reflected in our income statement due to the court order to escrow the funds pending the outcome of litigation. Additional funds are due CDI and Arlington Park and the Arlington Park purse account under the 2008 Molaro Bill, but we have not yet received any of those.

We'll now be happy to take -- oh, not yet, I have to turn it over to Bill Mudd first, and then we'll be happy to take your questions. Bill?

Bill Mudd: Thank you, Bob, and good morning, everyone. I will review the information as set forth in the tables to the press release that can be found in our Company website, www.ChurchillDownsIncorporated.com. Following my comments, I will turn it back over to Bob, before we open up the call for questions.

Let's begin by first reviewing the segment information which is contained on the schedule titled, "Supplemental Information by Operating Unit" in the press release.

As a reminder, from our previous calls, the discontinued operations section of our financial statements and tables contain the operations of Ellis Park and Hollywood Park. My comments will focus on the operational performance from continuing operations for the fourth quarter and the full year.

As Bob mentioned in his opening remarks, according to the figures published by The Jockey Club, handle on U.S. Thoroughbred racing was down 10 percent during 2009. Net revenues from external customers for our total racing operations fared a little better, seeing a decline of 6 percent year-over-year or a reduction of $19.5 million.

At Churchill Downs Racetrack, total year revenues from external customers decreased $8 million or 7 percent over 2008. We ran a total of 66 days in 2009, 12 fewer than 2008, or a 15 percent reduction. Handle on Churchill Downs Racetrack was also down 15 percent for the year, while net pari-mutuel revenues were only down 6 percent.

The comparatively better performance in revenues is driven by better export pricing for our signals, coupled with a better mix toward higher paying distribution channels, like advance deposit wagering. Revenue for this facility from external customers fell 12 percent in the fourth quarter, on a 19 percent reduction in race days.

At Arlington Park, net revenues from external customers decreased $1.8 million, or 2 percent for the year. During the first quarter of 2009, Arlington Park recognized $4.3 million in revenues related to source market fees that were previously held in escrow. Aside from this one time item, total year revenues decreased 7 percent, consistent with the handle decline of 7 percent. I will remind you that we do not conduct live racing at Arlington in the fourth quarter.

Our Calder racing operation saw net revenues from external customers decline by $3.4 million, or 5 percent for the year. Pari-mutuel revenues from out-of-state customers increased 55 percent, due to the signal disruption in 2008 over purse contributions from our slots facility. Unfortunately, these gains were more than offset by a 19 percent reduction in our on-track business, which we believe is, in part, driven by casino construction disruptions. Fourth quarter net revenues from external customers at Calder were pretty consistent with the 7 percent decline.

Our Fair Grounds racing operation net revenues from external customers decreased by $6.4 million, or 12 percent for the year. We believe that abnormal weather conditions impacted our results. During the fourth quarter we had to take 46 races off the turf course, due wet conditions. This compares to 18 races taken off the turf during the fourth quarter of 2008. Since turf races produce more handle than dirt races and changing surfaces at the last minute results in smaller fields, this dramatically affected our revenue during the fourth quarter. Bad weather, coupled with the simulcast signal disruption with the Mid-Atlantic Coop over pricing, drove our fourth quarter revenues from external customers for this location down 18 percent or $2.3 million.

Our online business grew revenues from external customers to $70.9 million during 2009, an increase of $16.9 million, or 31 percent growth, versus the prior year. Online business handle grew 41 percent for the year to $330 million. The growth in handle and resulting pari-mutuel revenues were driven by increases in our customer base, coupled with open access to horse racing content. In the open content environment, ADW businesses compete on a level playing field for customers with technology features and marketing. We believe our success in this segment, and our growth, are direct reflections of our strong product offering. Fourth quarter results were equally impressive, with revenue growth of 44 percent.

Now, let’s look at the EBITDA performance by segment, at the bottom of the page. Our racing operations’ EBITDA dropped 39 percent or $22.1 million during 2009. This includes an insurance recovery of $17.2 million in 2008, related to Hurricane Katrina. EBITDA is down further by 12 percent, or $4.9 million for this segment. This reduction is driven primarily by lower pari-mutuel revenues at each of our facilities, as discussed earlier. A $3.2 million decrease in Derby Week profitability, primarily related to lower corporate hospitality, pari-mutuel wagering, and attendance based revenues, and a $1.5 million per supplement at Churchill Downs Racetrack.

Partially offsetting these losses were favorable items for the Illinois source market fees, net of purses previously held in escrow of $2.1 million, our real estate tax refund of $2.4 million, and an insurance crime claim of $2.5 million.

In the fourth quarter, EBITDA for the segment decreased $2.1 million. This year-over-year reduction is driven by a gain on the sale of land at Quad City Downs for $600,000, during 2008, five fewer race days at Churchill Downs Racetrack, and a very tough economic and industry environment.

Our online business segment increased total year EBITDA by $7.6 million versus prior year, and by $300,000 in the fourth quarter. This improvement was driven by revenue growth, as discussed earlier, plus a $1.5 million improvement in HRTV profitability.

Our gaming business total year EBITDA was down slightly to $18.3 million, during 2009. Improvements in Fair Grounds slots from a full year of operating our permanent facility were offset by $3.1 million of pre-opening expenses related to our Calder Casino and reductions in video poker gross gaming revenues at our OTBs. For the fourth quarter, EBITDA for this segment was down $2.2 million, driven by $1.8 million of pre-opening expenses for our Calder Casino.

Overall, EBITDA decreased by $14.7 million for the year. This reduction is primarily attributable to $17.2 million of insurance recoveries in 2008. Otherwise, improvements in our online and Fair Grounds slots business more than offset weakness in our racing facilities, $3.1 million of opening expenses for our Calder Casino, and $1.8 million of costs associated with our pending merger with YouBet.

Our fourth quarter total Company EBITDA decreased by $4.2 million. This reduction is attributable to the $1.8 million of pre-opening expenses at Calder and $1.1 million of costs associated with the Youbet.com merger and racing reductions previously discussed.

Now, please turn to the condensed consolidated statements of net earnings. For the full year we grew total net revenues from continuing operations by 2 percent, or roughly $9 million. This growth was driven by our gaming and our online businesses. Unfortunately, these growth drivers were not able to offset declines in racing operations pari-mutuel activity in the fourth quarter, as we recognized a net revenue decline of 1 percent.

Selling, general, and administrative expenses for the year were flat to 2008, despite spending $1.8 million on the Youbet.com transaction, nearly $800,000 defending our position on the Illinois Horseracing Equity Trust Fund, and $1.6 million in pre-opening expenses for our Calder Casino.

Equity gains and losses in unconsolidated investments for the year improved primarily as a result of improvements in HRTV. Our fully diluted earnings per common share from continuing operations for the year came in at $1.27.

Now, if you could please turn your attention to the consolidated balance sheets in our release. Overall, total assets increased by $87.7 million. This increase in total assets is driven by a couple of factors. First, our restricted cash increased $21.4 million, reflecting the receipt of $24 million from the Illinois Horseracing Equity Trust Fund during the fourth quarter, as Bob discussed. The other big increase is the property and equipment line of $82.8 million as a result of $67.1 million of additions related to the Calder Casino, as well as the purchase of Arlington land for $27.5 million.

Total liabilities increased by $74.6 million during the year. Three items drive this change. First, the $24 million we received from the Horseracing Equity Trust Fund is being held in escrow at the direction of the court. This will not be recognized as revenue and purse expense until that issue is resolved. As such, you will see a new account titled, "Deferred Riverboat Subsidy," in the Current Liabilities section of the balance sheet. Another big driver of the increase in liabilities is the issuance of a note payable in the amount of $24 million for the Arlington land acquisition. Finally, borrowings increased by $28 million, primarily as a result of spending for the Calder Casino.

With that, I'll turn it back over to Bob for some final comments.

Bob Evans: Thanks, Bill. I'll be happy to try to address your questions.

Operator: Ladies and gentlemen, if you do have a question please press star, then one, on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue you may press the pound key.

Our first question comes from Steve Altebrando.

Steve Altebrando: Hi, guys. How are you?

Bob Evans: Morning.

Bill Mudd: Good morning, Steve.

Steve Altebrando: The release mentions that you expect continued growth in 2010. Is that on an EPS basis?

Bill Mudd: Yes, I mean I've got a caveat, you know, based on the timing of the YouBet transaction and the costs associated with it, obviously, some of the cost in terms of making that thing happen I haven't completely ran through yet, but, yes.

Steve Altebrando: Okay, and then what are you assuming as a 2009 base EPS, the $1.27 you mentioned?

Bill Mudd: Yes.

Steve Altebrando: Okay, and then in terms of Calder, generally the facilities have been showing a lot of seasonality. Would you expect your facility to follow suit or are you seeing a bit more of a local customer base?

Bob Evans: Yes, I would say, first of all, you're right, there is seasonality in the winter months. And we see that at our competitors. The difference and I think we'll see some seasonality, Steve, but I don't know that it'll be quite as dramatic, and here's why. We have a very local customer base, for one. And then a second factor is that when you're racing, you're running live racing you see a bump in casino patrons. And remember at our Calder Facility, we run nine months out of the year, so that should help in the weak periods.

Steve Altebrando: Okay, and CapEx, is there -- do you guys have an estimate for 2010? And just to make sure my math is right is there still for 2010, maybe about $25 million of Calder spending going to fall in to 2010?

Bill Mudd: Well, let me see here. So it would be about $20 million. I think today we've spent about $65.5 million, so it'll be a little bit less than $20 million.

In terms of a 2010 CapEx, do we have that accessible? I'll have to get that to you, Steve.

Steve Altebrando: Okay, that's it. Thanks, guys.

Bob Evans: Thank you.

Operator: If you do have a question please press star then one. Our next question comes from Ryan Worst.

Ryan Worst: Hey, good morning, guys. Just to follow-up on the CapEx question, I guess you said $20 million for Calder. I mean where -- what do you consider the $10 million that you're investing in the racetrack operations that you spoke about, Bill? Is that more of a maintenance CapEx number, and what do you expect for full year maintenance for this Company?

Bill Mudd: Well, let me get the -- Mike went to get the CapEx numbers for 2010 plan. In terms of the $10 million, part of that money has already been spent because we've already put HD into facilities at Churchill Downs and Fair Grounds racetracks. The big expense that'll hit this year is the night racing expense for lights, which we've got in the number. It's about $4 million in lights, which will predominantly hit in the first quarter as they're being installed now. There's about another $2 million that we'll spend on HD at Calder and at Arlington for HD television. And then there's, as Bob discussed, a couple million that we'll invest, which really won't be CapEx, it'll be more of operating expenses related to television, of televising of the prep races.

In terms of 2010 capital, remember, we still have $24 million, which we'll pay out in mid-May related to the Arlington land. And then, of course, you've got the $20 million left from the Calder Casino. Outside of that, we expect to spend maintenance capital of about $3 million on racing, probably another million dollars held in kind of escrow, that we'll allocate as needed in emergency capital. And then we've got a few other things that we'll spend money on. ADW, obviously, we'll spend about $5 million on that this year. Then we've got some other safety and ROI growth projects that we'll spend money on.

Ryan Worst: Okay, given the, you know --

Bill Mudd: And then, obviously, just so you guys know, you've got the transaction for Youbet. Excluding any costs associated with legal fees and, or investment bank fees, that'll be another $45 million or so.

Ryan Worst: Right, okay, and, Bill, there was one time fees for the Youbet acquisition and the Molaro Bill. Where were they accounted for in terms of the different operating segments?

Bill Mudd: Yes, most of those actually are booked at the corporate level, and then the corporate cost because of most of our corporate cost is really associated with centralization of HR and IT and Legal, and a number of other things, are allocated out to each one of the segments. So, each segment gets about 80 percent of that, and it's allocated based on revenues. So, to give you, I guess, a more direct answer on the $1.8 million, about $700,000 of that went to racing, $200,000 of that went to on-line, $200,000 went to gaming.

Ryan Worst: That's -- the $1.8 was the pre-opening number, so you mean the $1.4 million?

Bill Mudd: Oh, I'm sorry, $1.4 million, correct. Sorry.

Ryan Worst: Could you go over those numbers, again? I'm sorry.

Bill Mudd: Yes, of the $1.4 million, this is legal fees and fees associated with YouBet. Of the $1.4 million, $200,000 is in corporate, $200,000 is in online, $200,000 is in gaming, and $700,000 is in racing.

Ryan Worst: Okay, and then can you talk a little bit about online margins? It looks like they declined in the fourth quarter. And then also on the wagering side, it looks like wagering was up close to 40 percent online, in the fourth quarter. Could you talk about just the drivers to that, in terms of what tracks you had access to versus last year, and the other things that might impact that number on a year-over-year basis?

Bill Mudd: Okay. First, let's talk about the margin rate. With handle up 44 percent and having only $300,000 fall through to EBITDA, is not what you would expect to see, in terms of profitability. One big swinger here is the $200,000 of legal fees associated with YouBet and Horseracing Equity Trust Fund that get allocated out.

The other big factor is there's about a $500,000 swing year-over-year in salaries, within SG&A. And the reason for that is, in the prior year, we ended the year a little bit weaker than what we had planned, so there was a reversal of previously accrued compensation cost. This year we ended much stronger than what we had expected, so there was an incremental accrual. Well, that year-over-year swing was about a half a million bucks.

Ryan Worst: Okay.

Bill Mudd: So that was the big driver and why they didn't fall through.

Ryan Worst: Okay, and then also was there a purse settlement in Calder for, like, $1.5 million? Could you just refresh my memory as to when that was recognized?

Bill Mudd: Yes, that was at Churchill, and that happened in the third quarter. And that is a nonrecurring item. So as part of -- there were some disputes going back and forth --

Ryan Worst: Right.

Bill Mudd: -- over an old contract, the old purse contract, and how we treated wagers placed on online businesses owned by Churchill. And that contract predated the acquisition of AmericaTAB and BRIS. On top of that, we had the whole dispute going on in Calder at the time. So netting all that stuff together, and we signed a new three-year agreement with the Kentucky horsemen, we agreed to help beef-up the purses about $1.5 million. That $1.5 million was expensed in the third quarter but will be paid out over the next three years. So that will actually help us keep our purses be more competitive with racetracks that have casino gaming.

Ryan Worst: Okay.

Bill Mudd: To answer your other question, Ryan, on what content we had in the fourth quarter, we did pick up access. Remember, in the prior year, 2008, we did not have Churchill Downs because of the dispute going with the Kentucky horsemen, related to the $1.5 million we just discussed. We also didn't have Keeneland, Oak Tree, and a number of other TVG exclusive tracks, like Los Alamitos. Well, now everyone has all content. We basically had most of the content all of last year, with the exception of a few TVG exclusives, which we didn't pick up until the middle of last year or so. That's kind of washed itself out at this point.

Ryan Worst: Okay, and then just getting back to the CapEx, Bob said in the press release that it's difficult to justify a return or hard to get an acceptable ROI. In light of that, while you make those investments, are there any other alternatives that you could do, such as buying back your stock?

Bob Evans: Well, Ryan, I think that's a good question. I didn't say you can't get a return, I just said it's becoming increasingly difficult. And if you look at what we're investing in, it's less than physical assets and more in what I would call sort of intangible assets. Granted, some of these are operating expenses and not capital dollars, but, for example, televising the three weekends of Derby prep races is really part of trying to build our business around the Kentucky Oaks and Kentucky Derby.

So, the short answer is any big dollar expenditure on racing, be it capital dollars or operating expense dollars, is getting very carefully scrutinized because we're just having a very hard time convincing ourselves it's a good investment to make.

And, as I said in my comments a bit – a while ago, we're going to take a very close look this year at the long-term economic viability of all of our racing assets so that we make the decision that you discussed in your question, carefully, at every point of call. So it's a tough moment within racing for capital dollars or even expense dollars being spent.

Ryan Worst: Okay, any more color on the kind of Derby weekend relative to last year in terms of how much ahead you are versus last year? And whether or not you can make up that kind of $3.5 million, that you lost in 2009?

Bob Evans: Obviously, we have the information, but I just don't want to get into disclosing all that at this point in time.

Ryan Worst: Okay.

Bob Evans: Like I said in my comments, we're running ahead on both sales and collections from where we were last year.

Ryan Worst: Okay, great. Thank you.

Bob Evans: Yes. Thank you.

Operator: Our next question comes from Jeff Thomison.

Jeff Thomison: Thanks, and good morning.

Bob Evans: Good morning.

Jeff Thomison: I wanted to shift gears a little bit and talk about your music festival. It sounds like the lineup is mostly set and solidified, and your marketing is about to ramp up. But just wondered if you had any more to say about ticket sales? You mentioned the 19 percent of your inventory. I just wondered if that was in line with your expectation or hopes.

And then on the expense component of this festival build, just wondered if you had any color about when the bulk of these expenses will hit and where they'll hit on the P&L?

And then, lastly, I doubt that you'll tell us, but just was curious if you had any comment on where you expected sort of a breakeven number to be in terms of ticket sales for this first year event?

Bob Evans: Well, three questions, we'll give you three different people to answer them. So I'll answer the first one, put the last one first, which is, you're correct, we're not interested in disclosing breakeven or what we expect to do on this. Mudd, in a minute, can give you the details on where the expenses will occur. And sitting in the room with us is Steve Sexton, the President of Churchill Downs Entertainment. So, Steve can talk about ticket sales and where we are there, and what our marketing efforts are. Steve?

Jeff Thomison: Great.

Steve Sexton: So on your ticket sales question; we're pleased, thus far, because the general curve for music festivals across the country is very slow sales from announcement date until up about four months, three months prior to festival when people really want to part with their money for a live event. So, thus far, selling 20 percent inventory is -- we're very pleased with it. As

Bob said in his comments, the marketing efforts really kick in later this month and, as we move closer to the festival, they'll intensify.

Bob Evans: Bill?

Bill Mudd: Yes, and in terms of expenses, I would say in 2009 we do have a team of people who work for Steve that have been working on these various entertainment opportunities and venues. We spent about $1.1 million of cost associated with that in the prior year, but in terms of the physical cost for the event itself, that will happen in the third quarter, basically the same time the revenues are recognized. So, there's kind of the base piece, which is kind of the team, they'll do more than just HullabaLOU. We've already invested in that last year, that's in the results. And then in terms of the marginal economics of the HullabaLOU then, itself, those will be recognized in the third quarter of next year.

Jeff Thomison: Okay, and then just, lastly, would you guys still be interested in conducting your, you know, just your one-night major concert acts, that you've done a couple of in the past?

Bob Evans: Steve?

Steve Sexton: Certainly, I mean we've got a variety of pursuits ongoing right now. We won't disclose details, but we're certainly engaged and interested in the kind of onetime, one-off to some degree, concert events as well.

Jeff Thomison: And what would be the main reason that there really hasn't been one since The Police? Is it just the economy?

Steve Sexton: It's -- there's a large combination of variables, mainly what acts are touring, how are they routing, are they playing the stadiums, are they playing arenas? There's just a large combination of variables. Are they playing domestic versus international? So we've actively, and we'll continue to actively, pursue our various acts, and we still have an avid interest in hosting any of certain acts that certainly align with our brands at Churchill Downs.

Jeff Thomison: Great. Well, good luck with that.

Steve Sexton: Thanks.

Operator: If you do have a question, please press star, then one.

We do have a question from Steve Altebrando.

Steve Altebrando: Hi, guys. Just quickly, I know it's not tremendously material, but the account wagering tax they've been discussing in Kentucky, just wanted to get your thoughts on that?

Bob Evans: Well, the general rule, we don't like any taxes that go against revenue. The horse racing business seems to like to tax revenue, and then if you make a profit they want to tax the profit as well, which makes it kind of tough. Most businesses don't usually face both front-end and backend taxes. But in this particular case, given that the amount is pretty small, 0.5 percent, and how those funds are then distributed, we think we can live with this one.

Steve Altebrando: Would you expect other states to look at this, or I'm just not sure I understand the rationale, that it seems like it hurts Kentucky residents and Kentucky tracks?

Bob Evans: Appreciate your observation. I don't know what other states may choose to do.

Steve Altebrando: Right. Okay, all right. Thank you.

Bob Evans: Thank you.

Operator: Our next question comes from Jeff Karansky.

Jeff Karansky: Hi, guys. How you doing?

Bob Evans: Good morning.

Jeff Karansky: Good morning; another tax question. Don't know if you covered it. The situation down at Calder, can you give me some -- a little bit of an update there, in terms of, maybe, a timeline, or whatever on when a resolution is going to hit?

Bob Evans: Well, I'd like to. Wish the gang could give me a definitive update, too. But I think it's just the vagaries of the political process, and we were pleased to see that the issue of reducing these taxes on the slot operations conducted by the pari-mutuel operators might get separated from the compact and dealt with separately. I thought that was a great way to deal with it, but as far as handicapping that one, I have no great insight. So, hopefully, it'll turn out the way we want.

Jeff Karansky: Okay, thanks guys.

Bob Evans: You're welcome.

Operator: If you do have a question, please press star, then one. I'm not showing anybody queuing up for a question at this time.

Bob Evans: All right. Well, listen, thank you all for joining us. As we've done over the last couple years, we've sort of pushed the business a little bit more in the entertainment direction. Steve was talking earlier about HullabaLOU and some of the other things we'll do, but perhaps our biggest entertainment event comes up on Sunday, March 14th, when our Chief Operating Officer, who is sitting here with us, Bill Carstanjen, takes the starring role in the CBS show, "Undercover Boss." So, if you don't have anything else to do on Sunday, March 14th, at I believe 9:00 p.m. Eastern Time, or even if you do have something better to do, stop doing that, sit down, turn on CBS and watch Bill on "Undercover Boss." Thanks very much. Look forward to talking to you next quarter. Bye-bye.

Operator: Ladies and gentlemen, this does conclude today's program. You may now disconnect and have a wonderful day.

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