## MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to Churchill Downs Incorporated Second 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, this conference call is being recorded.

I would now like to turn the conference over to Ms. Liz Harris. Ma'am, you may begin.

**Liz Harris, Vice President, Communications**

Good morning, and welcome to this Churchill Downs Incorporated conference call to review the company's results for the second quarter of 2010. 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 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 "Investors", located at 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 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 the 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 and 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.

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. Members of our executive team are here, and will be available to answer questions after some formal remarks.

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

**Robert L. Evans, President and Chief Executive Officer**

Thanks, Liz. Good morning, everyone. Thanks for joining us. I'll make a few general comments about Q2 and then turn it over to our CFO, Bill Mudd, to fill you in on the details. After that, we'll be happy to try to answer your questions.

Q2 net revenues were up 11% over last year. EBITDA was up 700,000 or 1%. But I had observed that last year included the positive effects of 0.8 million in pari-mutuel tax refunds and a $0.7 million recovery related to the now closed Bay Meadows racetrack in California. And that this year included $4 million in negative effects from deal costs, software asset write-downs and severance costs, all related to the closing of the Youbet.com deal, which occurred on June 2nd.

  

This was the second highest quarterly EBITDA the company has reported. The highest was 62.9 million in the second quarter of 2006, although that included 10.1 million in hurricane insurance recoveries. Let's take a quick look at each business segment.

Racing's second quarter EBITDA was up 0.9 million. Kentucky Oaks and Derby Week was up 3.4 million and established a new EBITDA record for the week. The rest of our racing operations were down in Q2, consistent with the 6% decline in U.S. Thoroughbred racing industry handle and a 5% reduction in the number of CDI race days in Q2 from 118 to 112.

Gaming EBITDA was up 1.9 million in the quarter. The Calder Casino obviously increased since it only opened on January 22nd of this year. Our Fair Grounds slots and video poker businesses were essentially flat.

Performance of the Calder Casino continues to improve. Both slots and poker were profitable in the quarter on an EBITDA basis. Total gross gaming revenue or GGR exceeded 21 million. Since last fall, we have said that we expect the Calder Casino to produce about 80 to 100 million in annual full-year GGR. We achieved that annualized run rate in Q2.

The casino is now number two in the five pari-mutuel facilities in South Florida market, in both coin-in and revenue. It represented 22% of both the market's machine inventory and revenue in Q2. Not bad for a facility that was only in its fourth, fifth and sixth months of operation. We added 35,000 new members to our Player's Club database in Q2, so we hope we can continue to grow revenues.

We believe the EBITDA performance of the Calder Casino should continue to improve as we grow revenues, as we fine tune the cost structure, now that we have a better idea of just what amenities customers want. And, as the result of the July 1st Florida state tax rate reduction on slots from 50% to 35%, which we anticipate will add roughly 2 million per quarter to EBITDA, starting in the current quarter.

While our Louisiana operations were flat in terms of EBITDA, we are pleased that we were able to increase our share of the New Orleans slot market, offsetting the overall market decline in Q2. EBITDA of our Online business declined about 0.6 million in the quarter, primarily as the result of a 1.3 million asset write down that we took related to software we had purchased in 2007, for which we no longer had any use following the acquisition of Youbet.com.

TwinSpires.com's handle increased 11% in the quarter. It's a little more complicated to give you an overall view of the combined handle of TwinSpires.com and Youbet.com since we only owned Youbet from June 2nd on, but here it goes.

Total CDI Online handle was up 47% in Q2 versus Q2 last year. Total CDI Online handle in the first half of 2010 was up 30%. So those were the numbers as reported. TwinSpires.com's handle was up 11% in the quarter and was up 10% in the first half of the year. Even though we didn't own Youbet for the majority of the quarter, Youbet's handle was down 3% in Q2 and was down 5% in the first half of 2010.

Combined, TwinSpires.com and Youbet handle was up 3% in the quarter and up 1% in the first half of the year. When we announced the Youbet deal last fall, we said we expected to realize $10 million in annualized ongoing cost savings from the synergies of combining the two companies with the initial 5 million realized within the first few months following closing, and the second 5 million realized by the end of 12 months following closing.

As of today, roughly two months post-closing, we have put in place changes that would generate a projected 8.4 million in annualized ongoing cost savings. Based on this progress to date, we are raising our cost reduction synergies target from 10 million to 12 million. I also want to comment on the Internet Gambling legislation that's active in the U.S. Congress, as well as in various states.

  

One of the main reasons we built our Online business is to put us in a position to take advantage of Internet gambling should it be legalized at the state and/or federal level. I think there was a lot of buzz last week as the House's Financial Services Committee passed the Internet Gambling Regulation Consumer Protection & Enforcement Act on a bipartisan basis, by a 41 to 22 vote margin.

While we're encouraged to see Congress addressing the issue in a meaningful way, there are many remaining steps in the legislative process. We will continue to be active participants in this debate and we'll push for a comprehensive solution that creates a level playing field with proper consumer safeguards. It's too early to tell if Internet Gambling legislation has a realistic chance of passage at this session.

The uncertainty of the election season, combined with the natural reluctance of Congress to publicly tackle an issue as controversial as Internet Gambling leads us to place long odds on passage prior to this November. Our Churchill Downs Entertainment Group conducted the first HullabaLOU Music Festival on July 23rd, 24th, and 25th.

Now the question here is this: Given that we lost over $5 million on this inaugural event, why have we already announced that HullabaLOU will be back in 2011? Our goal is to produce a national music festival on the scale of Chicago's Lollapalooza; Austin, Texas' Austin City Limits Music Festival; Manchester, Tennessee's Bonnaroo; California's Coachella; and New Orleans' Jazz Fest, which is conducted at our Fair Grounds Race Course.

We understand the economics of these established events and if HullabaLOU can match those numbers, then we will have created a valuable asset. We also know based, on these other festivals, that it will take us several years to establish the HullabaLOU brand and to get to the point where the economics are meaningfully positive.

So going into this year's HullabaLOU, we decided to spend the money to get the right artists, the right venue and the right level of customer service and take the risk that we could sell enough tickets, parking, sponsorships, food and beverage, and branded merchandise to keep the planned loss to between 2 and 3 million.

Given the lead times involved in booking artists, we had to make these decisions last fall. Two things subsequently surprised us. First, as the Wall Street Journal reported in its July 9th story, ticket sales for the top 100 North American live music tours are off 17% this year, the first decline in a decade. And the August 7th edition of Billboard Online notes that "numbers reported to Billboard Boxscore show North American box office dollars down 250 million January to June from the same period a year ago, a decrease of nearly 22%. Attendance is down nearly 30% year-to-year."

So, first the music concert market changed rather dramatically on us. Second, temperatures in Louisville range between 95 and 100 degrees during HullabaLOU in what we now know was the fifth hottest July since 1871 when the weather records were first kept for the city. Ticket sales on the actual event days were dramatically below our plan. So, while a little over 78,000 people showed up, we had hoped to exceed 100,000 in total for the three days.

The good news here is that those who did attend loved the event. Based on our exit surveys, over 99% said they would recommend HullabaLOU to a friend, 70% said they would definitely return next year and 28% said they might return, depending on the weather – primarily the heat and the line up of artists. The feedback from artists has also been overwhelmingly positive, something we're told is very unusual. In many respects, HullabaLOU is like our night racing initiative where we lost money on night racing in 2009 but learned how to make money on night racing this year. We learned a lot with HullabaLOU this year and I guess we should have; it was an expensive education and we believe we can make the changes to revenue and costs necessary to make this a significant economic asset for the Company. If we can't, HullabaLOU will not continue long-term.

Finally, on July 20th, the Kentucky Horse Racing Commission approved regulations that could potentially lead us to being able to install what the regulations call 'historical racing machines' at Churchill Downs Racetrack. These regulations still have to survive legal challenges and legislative review, so we'll likely be well into next year before any racetrack in Kentucky is in a position to actually install these machines. As this initiative moves forward, we want to make sure you understand the fundamentals of historical racing machines.

So here are the key points: Historical racing machines allow the customer to make a pari-mutuel wager on a historic, that is, a previously run and recorded horse race. They do so in a manner that resembles, but doesn't duplicate how a slot machine is played. They're in use only at Oaklawn Park who happen to manufacture the only such machines in the market at this time and at a dog-racing track – both in Arkansas.

To the best of our knowledge, no other casino or racino in the United States has installed historical racing machines. We are concerned about the competitiveness of our historical racing machine operation, which almost certainly would not have the hotel, the pool, the golf course, the entertainment showrooms, the conference facilities, the multiple restaurants, the shopping, the poker and the table games that exist at our casino and racino competitors. At this point, our principle competitive advantage would be that our historical racing machine operation would be geographically closer to the Louisville population base.

Finally, the stated purpose of authorizing historical racing machines is to help Kentucky's racing industry to be more competitive with those in surrounding States that have slots at their racetracks.

While we greatly appreciate Governor Beshear's and the Commission's support in approving historical racing machines, we project with the understanding that we do not know what the final regulations may be that historical racing machines at Churchill Downs would annually generate about $2 to $3 million in additional purse money.

By comparison, according to the Indiana.gov website, the casino gaming operations at Hoosier Park and Indiana Downs, with whom both Churchill Downs and Arlington Park compete for horses, collectively contributed over $52 million annually to purses in 2009. It will probably be quite some time before we get to the point of a final decision on whether to install historical racing machines. And based on what we know so far, should we decide to proceed, it appears that the financial impact on Churchill Downs, on our purse account and on our ability to produce the large field, high-quality racing that betters want, will be minimal.

Let me turn this over to our CFO, Bill Mudd, who will provide some additional details. After that we'll be happy to answer your questions. Bill?

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

Thanks, Bob, and good morning, everyone. As usual I will review the information set forth in the tables of the press release. My comments will focus on our performance from continuing operations for the three months ended June 30th. I'm going to start with a summary of the second quarter results from the schedule titled 'Condensed Consolidated Statements of Net Earnings for the three months ended June 30th'.

For the quarter, we had continuing net revenues from external customers of $200.5 million, which were up 11% or $20.5 million for the period. All business segments experienced revenue growth in the quarter with the exception of Racing Operations, which declined 2%.

Our second quarter 2010 revenue growth includes Calder Casino revenues of $12.8 million and one month of Youbet.com, ADW and United Tote operations, which contributed $8.8 million. Unfortunately, operating expenses grew at 17%, outpaced revenue growth in the period. This increase includes a $4.5 million increase in depreciation and amortization. 3.6 million of that is related to the new Calder Casino, while $900,000 is related to the Youbet.com acquisition.

We also recognized the $1.3 million asset impairment in our Online segment related to the reassessment of the use of certain software in connection with the acquisition. SG&A expenses were up 33% or roughly $4 million. The biggest part of this increase is driven by transaction costs, associated with Youbet, the Youbet acquisition of 2.1 million. These transaction costs include expenses for legal support and investment bank consulting and the like.

The good news is we do not expect it to incur any more transaction cost related to that deal. The one-month of Youbet.com operations added $1.4 million of cost. Approximately 400,000 of this is related to restructuring after the merger. We do expect to incur more restructuring charges, as we continue to integrate the businesses. And our Calder Casino incurred $1.3 million more in the period.

Interest expenses increased by 1.2 million over the prior year, as a result of higher outstanding debt balances driven by capital expenditures related to Calder Casino, the payout for the note payable for the Arlington land purchase, and the acquisition of Youbet.com. Earnings from continuing operations were down 11% to $27.6 million or $1.85 per diluted common share.

Now let's review our segment information in the schedule titled 'Supplemental Information by Operating Unit for the three months ended June 30th'. Total racing operations' net revenues from external customers decreased 2% in the quarter. In total, we conducted 112 days of live racing, a reduction of six days or 5%, versus the same period last year.

According to industry information released by Equibase, total handle in U.S. Thoroughbred racing declined 6% on a 4% reduction in the number of race days for the second quarter versus the same period of 2009.

Churchill Downs Racetrack was able to increase net revenues from external customers 1%, despite a one-time revenue improvement of $1.7 million in the second quarter of 2009, related to a reduction in pari-mutuel taxes and in addition to a reduction of three live race days. The 4% pari-mutuel net revenue decline was more than offset by improvements in other ancillary revenues such as admissions and food and beverage, driven by a strong Derby Week performance along with three night racing events.

Arlington Park net revenues from external customers were down 9% on a 19% decline in handle. While Arlington track handle was 10% weaker than prior year, export wagers, that is, bets placed on our product off-track, were down significantly more.

Export wagers in the second quarter were 25% below prior year, which we believe to be driven by competitive pressures, primarily related to the state subsidized $1 million purse-per-day experiment at Monmouth Park in New Jersey.

Calder's external revenues also experienced a reduction from the increased competition along with a 10% reduction in live race days. Fair Grounds only conducted import simulcasting during the quarter and hosted the 40th Annual New Orleans Jazz Festival and Heritage Festival.

Our Online business grew net revenues from external customers about 41% or $8.6 million on handle growth of 47% in the quarter. 6.6 million of the increase was driven by the acquisition of the

ADW business within Youbet. It does not include any revenues associated with United Tote, which is included in the 'Other Investments' segment.

Excluding the acquisition, Online business handle increased 11%, while pari-mutuel revenues increased 12% in the quarter. While we haven't seen the final numbers yet, we believe this growth is driven by continued organic growth in this distribution channel for thoroughbred horse racing along with share gains by TwinSpires.

Our Gaming segment grew net external revenue -- customer revenues by 12.8 million or 83% during the period. All of this growth was generated by our new Calder Casino, which opened in January 2010.

Calder Casino coin-in and gaming revenues finished second in the market among pari-mutuel gaming operators as reported by the Florida Department of Pari-Mutuel Wagering. Gross win-per-unit-per-day at Calder Casino was $178 for the quarter, up from $167 during the first quarter this year, despite a seasonally weaker gaming period.

On July 1st, our Florida State Gaming Tax rate was lowered 15 points to 35%, which will allow us to better compete with other gaming and entertainment options in the area. Net revenues from external customers at our Fair Grounds slot facility and our Louisiana video poker operations were flat to prior year.

Now let's look at the EBITDA performance by segment at the bottom of the page. EBITDA from continuing operations for our Racing Operation segment was $49.4 million in the quarter, a 2% increase over prior year.

Gains in this segment were driven by Kentucky Derby Week profits increasing $3.4 million as a result of higher pari-mutuel wagering, admissions and sponsorships, along with profitability gains from three successful night racing events. These gains were partly offset by reductions in profitability at Arlington Park and Calder Race Course from continued pari-mutuel declines, previously discussed.

Our Online business segment reported its first quarterly year-over-year EBITDA decline since we entered the business in early 2007. Our second quarter Online EBITDA was down 11% or $0.6 million.

The increased profitability from handle and the Youbet.com acquisition were more than offset by the $1.3 million impairment charge previously discussed, as well as the $400,000 spent on restructuring costs to integrate the two businesses.

Our gaming business generated 6.7 million of EBITDA, an increase of 39%. The $1.9 million increase is primarily driven by our new Calder Casino. Our Fair Grounds operation EBITDA was flat to prior year, while we realized a small year-over-year gain in our video poker business from better cost controls.

Other investments EBITDA decreased $0.6 million driven by expenses related to Churchill Downs Entertainment. Corporate EBITDA decreased 900,000, primarily due to the effect of favorable settlement with the -- of the simulcast services contract, which contributed $0.7 million in the second quarter of 2009.

Total Company EBITDA increased by 0.7 million or 1% versus our prior year, as gains from Derby Week, our new Calder Casino, the Youbet.com acquisition and our core ADW business, TwinSpires.com, were mostly offset by Youbet.com acquisition costs, investments in Churchill Downs Entertainment and the technology impairment charge related to the Youbet.com acquisition.

Now turning your attention to the 'Condensed Consolidated Balance Sheet', I'll review a couple of key variances.

Overall, total assets increased by $147.6 million. The Youbet.com acquisition accounted for approximately $136 million of this increase.

At an account level, our restricted cash increased 22.3 million, reflecting the receipt of $12.5 million from the Illinois Horse Racing Equity Trust Fund during the second quarter. These funds will remain in escrow, pending the appeal of the federal lawsuit as more fully described in the Form 10-Q.

In addition, we picked up $4.8 million from the Youbet.com acquisition relating to restricted customer deposits. Goodwill related to the Youbet.com acquisition was $68 million. Intangible assets increased by 22.5 million, primarily related to the Youbet acquisition for customer relationships.

Total liabilities increased by $40.4 million in the first six months. The Youbet.com acquisition accounted for approximately 13 million of this change. Outside of the Youbet.com acquisition, accounts payable and accrued expenses increased consistent with the commencement of the racing meets at Churchill Downs, Arlington Park and Calder during the quarter. Deferred revenue decreased significantly since December as a result of Kentucky Derby and other second quarter revenues recognized during the live meets.

Finally, long-term debt increased by $42.4 million, primarily as a result of borrowings to include the Youbet.com acquisition that also includes spending for the Calder Casino, and the payment of the Arlington land note that was due and paid on May 15th.

This concludes my remarks. With that I'll turn back over to Bob to open it up for questions. Bob?

**Robert L. Evans, President and Chief Executive Officer**

Thank Bill. Sayeed, do we have any questions?

## QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. First question comes from Ryan Worst from Brean Murray.

**<Q – Ryan Worst>:** Hi. Good morning guys.

**<A – Robert Evans>:** Hi, Ryan.

**<A – William Mudd>:** Good morning, Ryan.

**<Q – Ryan Worst>:** Yes. Just a few questions, one, on that software write-off, was that included in your $4 million of expenses attributable to the Youbet transaction?

**<A – Robert Evans>:** [inaudible] on top of that.

**<A – William Mudd>:** Yes. Correct. To make that real transparent, 2.1 million of that was the legal fees associated and investment bank fees associated with the transaction. And those costs, because the question will come up, were part of corporate, which largely gets allocated out to the segments.

So, of that 2.1 million, 1.2 million of that was in Racing, 0.3 million of that was in Online, 0.2 million of that was in Gaming, and 0.4 million of that was in Corporate. So that's how the 2.1 million affected the segments. In addition to that, that 1.3 million write-off is in the 4 million and that's completely included in the Online segment and then there is 400,000 of restructuring charges that's also included in the Online segment.

**<Q – Ryan Worst>:** Okay. And Bill, what did you guys have as far as stock comp in the quarter?

**<A – William Mudd>:** Stock comp in the quarter, let me see here, I got it. Just give me a quick second to look for it. I'm going to look at my – about 700,000.

**<Q – Ryan Worst>:** Okay. And then also, Bill, could you just touch upon what CapEx was in the quarter and what you expect for the year? And then also how the acquisition of United Tote impacts your CapEx projections going forward? So how much will you be spending on United Tote annually?

**<A – William Mudd>:** Yes, that's great questions. Year-to-date, we spend about 52 million in capital. And I think through the first quarter we spent about 18.9. So what is that? About 33 million. 24 million of that was related to the Arlington land purchase, which really occurred last year. So, excluding that about 9 million and of that 9 million, it looks like about 4 million of that was related to the Calder slot facility.

**<Q – Ryan Worst>:** Okay. Great.

**<A – William Mudd>:** With regard to the United Tote capital-spend, we're actually in the middle of going through and reviewing how we're going to run that business. Clearly, it's been capital starved for a few years, but the return on capital in that business is very low as it stands today. So we're being very selective about how we go about doing that. And right now, we're probably not quite as prepared as I'd like to be to answer that question, Ryan.

**<Q – Ryan Worst>:** Okay. But there's other options in terms of financing those deals like providing vendor financing I guess?

**<A – William Mudd>:** Yeah. I mean, largely the capital in that business, and this is why I'm hesitant to talk to that is, there's two ways you can do that. One, we can provide the capital and build for the capital and build a capital charge. Or we can have the customers buy that capital. So, I'm not exactly sure how that business model works within United Tote for all the different customers. We're going through all the customers now, understanding where the capital is deployed and then how we're going to do that going forward for our business.

**<Q – Ryan Worst>:** Okay. And then also on the divestiture of the JV with Magna Entertainment, Horse Racing TV, when did that occur; did that impact the second quarter, or what was the loss for that last year?

**<A – William Mudd>:** Well, first of all, we're still 50-50 partners in HRTV. We have not exited that joint venture. The only joint venture that was actually was TrackNet Media in the second quarter. And TrackNet Media really consisted – there wasn't really any assets. There was a small lease that actually we're going to pick up because we can use the space. Other than that it was employee-related expenses and those costs were taken in the second quarter. And when I say employee-related expenses, it was restructuring because some of those employees were terminated as part of dissolving that joint venture.

**<Q – Ryan Worst>:** So where were those restructuring charges included on the income statement?

**<A – William Mudd>:** Well, it's not a very material number first of all.

**<Q – Ryan Worst>:** Okay.

**<A – William Mudd>:** It's actually very small, there's only three or four people so --.

**<Q – Ryan Worst>:** Okay that's fine. And then the funds that you guys are supposed to get back from Illinois Horse Racing Fund, is that still in escrow and when would you expect to receive that and how much?

**<A – William Mudd>:** Yes. Well, first of all, it is still in escrow and when we expect to receive it, is a good question. It's kind of like getting slots in Illinois, if you can handicap, I'd love to hear it. So the bottom line is, as you know, it went through the U.S. Supreme Court, they refused to hear it. The Illinois Supreme Court, prior for it going to the U.S. Supreme Court, had ruled in our favor. It went back to the state courts and there were other lawsuits filed by the casinos of Illinois and basically it's in the judge's hand. So, we're kind of waiting for that decision.

When that happens, and if there is another angle that they take to delay us being able to take those funds, who knows? But what's out there today is – we got about $36.5 million sitting on the balance sheet. It's all sitting in that deferred Illinois revenue subsidy on the liability line. The asset line is sitting in restricted cash. So that's where the two offsets are. And if you look at what portion of that CDI is about 15.5 million of CDIs and about 21 million would go to purses in Illinois.

**<Q – Ryan Worst>:** Okay. Thanks. And then maybe Bob, you could kind of talk about the trends that you are seeing in the concert business. Obviously it sounds like there was a big fall off in ticket sales this year and doesn't that make you more hesitant to enter that business given that the trends seem to be declining? And if there is any specific measures on how you could reduce that loss over the near term that would also be helpful?

**<A – Robert Evans>:** Well, all right. Well, the trend has been up on music concerts, live music concerts and festivals over the last decade. Just the current year is turning out to be a tough year for everybody. The headlines on the music industry publications are things like "Cruel Summer". So, the trend has been up for a long period of time, just a tough year. We'll think a little bit more about what that means. But we'll go back and sort of rework our thinking around this entire event similar to what we did with night racing. We learned a lot. The number one goal in getting through this year was to do something memorable so that we would establish the brand. I think we ended up selling tickets in 47 states. We wanted to get outside of just the Louisville and Kentucky area and bring people in from across the country. We were successful in doing that.

We had no idea how many same day or walk-up, call 'em what you want, sales we would have. Based upon what other events had experienced, there was a significant number there that we thought was reasonable to expect. I think we just got slammed by the heat. The walk up or same day business was just non-existent or virtually non-existent. So, we basically built a show that was bigger than the number of people that showed up. We can make some adjustments to that next year. We found out what types of acts work better than other types of acts. So, we learned a lot. We'll revamp this thing. And if we can't figure out a way to make this a significant EBITDA contributor, well we're – I don't know if you can hear it on the phone, we got a heck of a thunderstorm going on here.

**<Q – Ryan Worst>:** Yes.

**<A – Robert Evans>:** If we can't figure out a way to make it a significant EBITDA contributor over time, we will stop doing it; just the way we stopped some of the other things that we've initiated. And the ones that work we keep investing in and trying to grow.

**<Q – Ryan Worst>:** Okay. That sounds reasonable. And then could you just touch upon the incremental savings for Youbet, where you achieved that or where you think you will achieve that? And then maybe if you have a chance, to talk about revenue synergies there, is that a potential over the next year or so?

**<A – Robert Evans>:** Well, let me give you a couple of high level thoughts and then Bill can give you the details on where the cost synergies are being realized, at least at a macro level. What we focused on – we've owned the business for two months. So, what we focused on is getting to the cost synergies that we thought were there and we're running significantly ahead of our plan, therefore we've changed our target from 10 to 12 million on an annualized ongoing basis. So that's good.

The piece that we're still sorting out is exactly how we're going to combine the two businesses in terms of how they go to market and I thought it was best to wait until after we concluded the acquisition and get the input of the Youbet people rather than try to do this just on our own. So that work is underway right now. We'll figure that out over the next couple of months and then put it in place following that. So, I don't really have an answer on the go to market side, but maybe Bill can give you a few more details on the cost synergy side.

**<A – William Mudd>:** Yes. Obviously a lot of the cost as we had described when we purchased the company is employee-related, so there's been several employee terminations as part of – as soon as we closed on the transaction. On top of that, a whole lot of the public company expenses have been reduced. So, whether it's director's fees or insurance costs or a whole list of different things. On top of that we've done a nice job of integrating the financial aspects of that business. So a lot of that's moved to Louisville. So, a whole lot of employee type of costs, some cost associated with offices and the like.

But, in terms of your question on revenue, there is possibly some revenue type of costs that is probably going to be more related to the Tote business. So, obviously, a number of our platforms today are not on United Tote and that's something we'll consider going forward. Not necessarily revenue for you guys, but I guess, more of a synergy between the two businesses.

**<Q – Ryan Worst>:** How about on the marketing side, the synergies that could be possible there, I mean, I guess, you're still marketing and promoting two different brands at this point, is that eventually going to be one brand or at least do you foresee the marketing at least being combined under maybe two banners but half the advertising?

**<A – Robert Evans>:** Ryan, we just -- we haven't made a final decision on that. I think it could still go either way. We might continue two brands. I kind of doubt it, but we might. More likely we'll end up with one brand, which one it is, can't actually tell you at this point, we're doing some research on that. I think the most important thing is from a customer experience, whatever it's called, it could be called Bob.com, I don't care. But whatever it's called, I don't want to change the customer's experience.

How they log on, enter their passwords, pins, deposit money, decide what to bet on, place their bets, find out the results, watch the video, I don't want to change that experience. So that -- it's not so important what the brand is necessarily, it's what the customer's actual use model is. And we're just defining that step by step so we don't overlook anything, and leave something out that some group of customers want. So, it's just going to take it a couple more months to finalize that and we said we do that within that first six months. So, I think we'll run ahead of that schedule, but I just can't tell you definitely right now.

**<Q – Ryan Worst>:** Okay. Thanks a lot. A good quarter guys. And thanks for taking all my questions. Just one more question and that'll be it. It seems like this business is just going to throw off a tremendous amount of cash flow over the next year, now that you have all the Youbet acquisition behind you, the build out of Calder. What are your plans for that cash flow, is there any plans to institute a share repurchase program?

**<A – Robert Evans>:** Not something we'd comment on in this forum. So, if we get to those decisions, we'll make those announcements at that time. But we've noticed the same trend about the future.

**<Q – Ryan Worst>:** Okay. Thanks.

**<A – Robert Evans>:** Thank you.

Operator: [Operator Instructions]. Our next question comes from Steve Altebrando from Sidoti & Company.

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

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

**<A – Robert Evans>:** Hi, Steve.

**<Q – Steve Altebrando>:** For the music festival, is there a number attendance-wise, a breakeven number?

**<A – Robert Evans>:** Well, we thought we had one. I don't know. I don't want to throw a number out there about the future yet, because I don't know exactly what show we're going to produce in 2011, whether it's two days, three days, four days, whether it's in July or some other month, how many bands, how many headliners. So until we've sorted that all out, based upon what we've learned, I don't have a new breakeven attendance number. And even if I did, it's a function of the ticket pricing as well. So it's not just how many people pay, it's what they're willing to pay.

**<Q – Steve Altebrando>:** Okay. Looking at Calder a bit, it looks like according to the state data, you guys have been pretty promotional, is there a plan to pull back on that? And also if you could refresh me, is there – are you taxed on promotional, on free play?

**<A – William Mudd>:** Let me -- first of all, I'm not sure you're looking at the database at the state level?

**<Q – Steve Altebrando>:** Yes.

**<A – William Mudd>:** So, you've got to remember what's included in the Florida Department of Pari-Mutuel numbers, as they report. There's only certain items that you do not pay taxes on. And that is things like $25 to sign up to get a new player card so that you can track the player and advertise directly to them. So those types of expenses are taxed -- you don't pay taxes on those, which is nice. So that's the part that you're seeing in the Department of Pari-Mutuel Wagering website.

We tend to be – because we're new and we're still signing up a lot of new players, we're probably showing up a bigger number there. The numbers that you don't see in there is whenever they give away things at the gaming facilities. Those are not tax deductible and they show up in the expense line; they don't show up in the revenue line. So we may not be actually promoting as much – for example, a new car, a new motorcycle type of events. Those don't show up in the numbers you're seeing, they show up in the cost line.

So, in fact, we may not be promoting as much as our competition because they maybe doing more of those type of things. So, I'm just saying be careful about how you review that information. So, yeah, I would say that we're probably a little bit heavier because we're opening up, we're building our database, new people sign up where they get free play – that is tax deductible, obviously, we want to use that lever as long as we can.

**<A – Robert Evans>:** Steve, this is Bob. The only other thing I would add to this is that this is another business that's new and we're learning. Our assumption was because we've focused very much on being a local casino serving the local Floridians as opposed to chasing the tourists that come in and out of the state during the year. So we thought we would be less seasonal in our business performance than the other casinos have been. So far that looks like it's the case, we haven't gotten all the way through the summer obviously yet.

So, we're still trying to figure out what the right mix of marketing is relative to the market we're trying to serve. And it's just a learning experience. So, my guess is when we tee this up for 2011, we'll have a much crisper view on just when to spend the marketing dollars and how best to spend them. So far this year, it's somewhat been an experiment because we don't -- it's our first time through a 12-month calendar year.

**<Q – Steve Altebrando>:** Right, okay, just to be clear, the line I'm referring to is – there's a promotional credits dollar value line which I am assuming is free play.

**<A – William Mudd>:** Right. It's qualified free play; there's only certain things that you can get free play on that is non-taxable. And then there is a bunch of stuff that if you want to do – to give free play away – that doesn't fall in that criteria, it is taxable and you won't see it in that line item. It'd be in the marketing expense line item.

**<Q – Steve Altebrando>:** Okay. But for that -- because the promotional credits are running about 900,000 a month, I guess the question is are you paying a 50% tax on that?

**<A – William Mudd>:** I agree. I am just -- to be clear though, I guess I don't really understand your question, but there are certain things that are tax deductible that show up in our line item and obviously we want to take advantage of the things you don't get taxed on, free play that does not get taxed on while you can.

**<Q – Steve Altebrando>:** Okay.

**<A – William Mudd>:** And anything that is taxable you wouldn't see in that line is my point, which is obviously much more expensive because it's 100 cent dollars instead of 50 cent dollars.

**<Q – Steve Altebrando>:** Right. Okay. And then other -- you touched on it a little bit on the script, but is there room for a lot of, I guess, efficiencies to come out of the property; it's still relatively new but is there material room to grow margins there excluding the tax rate?

**<A – William Mudd>:** No, I don't -- I wouldn't put that in a bucket of things that are – I think we have opportunities to obviously do better job marketing to know our promotional expenses, to your point, probably will come down after our database peaks out – things of that nature. But in terms of operational efficiencies I think we started out pretty well. Now, that doesn't mean that we're not trying to improve it, but I wouldn't make that major statement.

**<Q – Steve Altebrando>:** Okay, all right, thanks guys.

**<A – Robert L. Evans>:** You're welcome. Sayeed, anything else?

Operator: I'm showing no further questions at this time sir.

## Robert L. Evans, President and Chief Executive Officer

Okay, well thanks everyone for joining us. The thunderstorm here just stopped, so I guess that's a good omen. Talk to you all next quarter. Thanks again.

Operator: Ladies and gentlemen thank you for participating in today's conference. This concludes our program for today. You may all disconnect and have a wonderful day.