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## Conference Call Transcript

CHDN - Q2 2009 Churchill Downs Inc. Earnings Conference Call

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*Churchill Downs Inc. - Executive Vice President and Chief Financial Officer*

**William Carstanjen**

*Churchill Downs Inc. - General Counsel*

## CONFERENCE CALL PARTICIPANTS

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**Stephen Altebrando**

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**Steven Wieczynski**

*Stifel Nicolaus - Analyst.*

## TRANSCRIPT

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**Editor**

Good day, ladies and gentlemen and welcome to the Q2 2009 Churchill Downs Incorporated earnings conference call. My name is Keisha and I'll be your coordinator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of today's conference. (Operator Instructions).

I'd now like to turn the call over to Mr. John Asher, Vice President, Racing Communications; please proceed sir.

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**John Asher - Churchill Downs Inc. - Vice President, Racing Communications.**

Good morning and welcome to this Churchill Downs Incorporated conference call to review the company's results for the second quarter of 2009. 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 company's website titled company news located at [www.churchilldownsincorporated.com](http://www.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 some of the 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 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 we'll be available to answer questions after some formal remarks.

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

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Thank you John. You never want to follow the dulcet tones of John Asher on a conference call. So I appreciate you are filling in and pinching this morning, John.

Good morning, everyone. And we appreciate you joining us. I'm doing this call from Mountain View, California today, where I'm visiting our TwinSpires.com headquarters. I'll make a few comments and then our CFO, Bill Mudd, who is in Louisville will take you through the numbers. After that we'll be happy to take your question.

On virtually flat revenues from continuing operations in Q2, we eked out a 2% gain in EBITDA and 5% gain in net earnings from continuing operations over Q2 2008. I'm particularly proud of the team's continued focus on managing costs as operating expenses and G&A expenses combined were up only 0.5% in the quarter.

On July 15, after the end of the second quarter, we reduced our corporate staff by an additional six people or about 10% of our corporate employment. Quarter-over-quarter both revenues and EBITDA in our gaming and online businesses grew, while revenues and EBITDA and racing operations declined. Our gaming business is seeing some weakness in our video poker operations at the OTBs in New Orleans, which has been more than offset by the above prior year performance of our slot operations at Fair Grounds.

In addition, we incurred operating costs in our gaming business during the quarter related to the Calder Casino project. On July 10, we received our license to operate the Calder Casino, now under construction. That project is currently on budget and on time for January 2010 opening. Since the new poker room will be part of the existing Calder grandstand facility, we expect to be able to open that space a bit earlier, most likely in late October of this year.

Our online business grew net revenues from external customers by 33% and EBITDA by 237% in the second quarter. The primary driver for this growth is the fact that we took wagers on 94 tracks during the period versus 91 tracks last year. So we grew both the quantity and quality of the racing content offered through TwinSpires.com in Q2. Our online business also benefited from the fact that customers continue to shift their wagering to the Internet.

Operating expenses in the online business increased at a slower rate than revenues quarter-over-quarter. In addition, G&A expenses in our online business decreased quarter-over-quarter. As a result, we were able to expand the EBITDA margin for our online business from 10% to 25%.

The results of our racing operations in Q2 were disappointing. Total US industry handle was off 11% in Q2 and off 17% in June, the worst month so far this year. So at one level, our 6% drop in racing operations EBITDA in the quarter could be expected. But last year's Q2 was negatively impacted by the shutdown on Calder's export simulcast business and the elimination of advance-deposit wagering on Churchill Downs and Calder, both as the result of disputes with horsemen. So, we expected to better this year.

The core problem is that our three tracks running during Q2 this year were all competitively disadvantaged as more and more tracks with slots were able to lure horses away from us with higher purses, as evidenced by a comparison of our average field sizes year-over-year.

As an industry, we've learnt that bettors like more starters per race. When the number of horses in a race falls, bettors' interest declines, which leads to less money wagered and a decline in handle which leads to less money for future purses. It's a kind of downwards spiral we want to avoid, but that's becoming harder.

Let me share just a few statistics with you. Comparative Calder data is not meaningful in Q2 given the virtual shutdown of racing operations there last year, but a look at average starters per race at Arlington Park and Churchill Downs is illuminating. Arlington Park's average starters per race has dropped from 8.3 in 2008 to 7.9 this year. At Churchill Downs race track, we experienced this problem early in the meet, as average starters per race dropped from 7.9 in 2008 to 7.6 in 2009. At that point, we then eliminated racing on Wednesdays in an effort to shore up average starters



per race and saw an improvement from 7.5 in 2008 to 8.0 in 2009 over the comparable weeks. Keep in mind that before the impact of slot-subsidized purses materialized around 2005, starters per race Churchill Downs' race track averaged 8.6.

Now going from an average of 8.6 starters per race a few years to an average of 7.8 today may not see like much. But our internal analysis estimates that 0.8 starters per race is worth about \$52,800 in handle per race, or about \$24 million in handle over the 458 races we've ran in Churchill Downs' race tracks spring meet this year.

Future pursues are determined by how much handle is bet today. If we run a race today with say \$40,000 purse that only produces enough handle to fund a \$30,000 pursue in the future, then we've got a huge problem in our business and it will only decline over time.

We are quite disappointed in the outcome of the slots legislation in Kentucky known as House Bill 2 that was introduced as part of the special legislative session in June of this year. This is a battle we will continue to fight and one we believe we must win if Kentucky's horse racing industry is to survive.

With the success of our night racing experiment at Churchill Downs in late June and early July, three nights just over 89,000 total attendees, we have some reason to be optimistic about the longer run of our racing operations. We are completing our financial analysis of the experiment, and at a minimum we believe special events like Downs After Dark can generate additional ticketing and non-pari-mutuel revenues, if they become part of our overall racing and entertainment programming.

But even under the most favorable possible set of assumptions, programs like night racing will come nowhere near the financial impact of slots for tracks or horsemen, especially when you are talking about more money for purses. The only real solution we have in the absence of slots is to further reduce the number of race days until the purse handle -- the future purse relationship stabilizes.

I want to mention of our racing operations that we're not disappointed in is the appointment of Kevin Flanery as the new president of Churchill Downs race track. Kevin has served as our Senior Vice President responsible for National Public Affairs for the last few years, and he took the helm of our communications and media relations efforts in May of 2008. We think he will do an outstanding job of running Churchill Downs race track.

Finally, let's take a very quick look at the first six months of 2009 on a continuing operations basis. Net revenues were up 4%, operating expenses were up 2%.

G&A expenses were down 5% despite incurring pre-opening costs relating to the Calder Casino project. Operating and G&A expenses combined were up 1.5%.

Our EBITDA decreased \$9.2 million or 14%, to \$57.7 million year-over-year. However, 2008's EBITDA of \$66.8 million included \$17.2 million of insurance recoveries.

EBITDA in the current year includes \$2.2 million of source market fees, net of purses, received from the National Thoroughbred Racing Association, who have been holding those monies in escrow for a number of years.

Diversification of our revenue streams resulting from our growing gaming and online businesses combined with very effective cost controls is making us more profitable company.

While back in October we had hope to do considerably better on both revenue and EBITDA in 2009, we feel pretty good about our performance given the unexpected breadth and duration of the economic recession. And excluding insurance recoveries and source market fees net of purses received from the NTRA during the first quarter of 2009, we now have generated year-over-year increases in EBITDA in each of the last six consecutive quarters and in nine out of the last 10 quarters.

Now Bill Mudd will take you through the numbers in more detail. Bill?

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**William E. Mudd - Churchill Downs Inc. - Executive Vice President and Chief Financial Officer**

Thank you, Bob, and good morning everyone. I'll be reviewing the information as set forth in the tables of the press release that can be found at our company news section that John referred to earlier, which is on our website, [www.churchilldownsincorporated.com](http://www.churchilldownsincorporated.com).

As a reminder from our previous calls, the discontinued operations section of our financial statements and tables contain the operations of Hollywood Park. My comments will focus on the performance from continuing operations for the three months ended June 30.

Let's begin by first reviewing the segment information which is contained on the schedule titled supplemental information by operating unit for the three months ended June 30 in the release.

Total racing operations, net revenues from external customers decreased 6% or \$8.5 million in the quarter. In total, we conducted 118 days of live racing, a reduction of eight days or 6% versus the same period last year.

Six of those days were cut from Churchill Downs' race track due to the reduced number of horse entries we've experienced early in the meet. These date reductions coupled with softness in the areas of corporate hospitality, attendance-based revenues, and pari-mutuel wagering during Derby week drills throughout the \$5.2 million reduction at Churchill Downs' racetrack external revenues line.

Arlington Park ran two fewer days, a decrease of 5% in the quarter due to calendar differences. Despite this reduction in live race days, we are able to grow on-track attendance by 6%. Unfortunately the on-track per capita spending was down as we believe customers cut back on discretionary items.

Calder's external revenue increased 5% in the quarter on the same number of live days. The increase in revenue is primarily driven by export volumes as a result of the prior year dispute with the Florida HBPA, which withheld consent to export the signal outside of the state. Otherwise our on-track and in-state simulcast revenues saw declines generally consistent with the rest of the industry.

Fair Grounds only conducted simulcasting during the quarter and was host to the 39th Annual New Orleans Jazz & Heritage Festival.

Our online business grew revenues from external customers by 33% on handle growth of 43% in the quarter. This growth was primarily driven by increases in content including Churchill Downs, Calder, and Keeneland as well as expanded distribution.

We now offer TVG previously exclusive tracks such as Los Alamitos and Evangeline Downs. We finally operate an open content environment, which is great for our customers. Unfortunately, our day of business experienced revenue declines partly offsetting these online pari-mutuel growth.

Our gaming business grew net external customer revenues by about \$3.6 million, or 31% on the introduction of permanent slots facility in November.

Now let's look at the EBITDA performance by segment at the bottom of the page. EBITDA for continuing operations for our racing operations segment decreased \$3.4 million or 6%. The majority of this reduction is driven by \$3.2 million decrease in Derby Week profitability, primarily related to lower corporate hospitality, pari-mutuel wagering, and attendance based revenues discussed earlier.

Increases driven by the 2008 dispute with the Florida HBPA and broader ATW distribution of our signals were offset by fewer race days previously mentioned and the declines driven by the general economic environment. Our online business grew EBITDA about \$3.7 million for the quarter. This growth was primarily driven by handle, but also includes the much better performance by our HRTV, asset which has done a great job by growing revenues and managing cost.

Our gaming business generated \$4.8 million of EBITDA, an increase of 2%. This increase, driven by our permanent slots facility was mostly offset by reduction in our video poker business at \$0.4 million, which was revenue-related and \$0.4 million of non-capitalized spending related to the build out of the casino in Calder. Total EBITDA increased by \$1.1 million, or 2% versus prior year, as gains in our business were partially offset by losses in racing operations primarily during Derby Week.

Now let's take a look at the condensed consolidated statements of net earnings.

Net revenues from continuing operations were flat as growth in online and gaming operations offset reductions in racing. Operating expenses were up 2% driven by cost associated with our permanent Fair Grounds gaming facility and handle growth in ADW.

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Our SG&A expenses were down 12% and reductions in employee related spending including incentive compensation. Equity losses and unconsolidated affiliates improved \$745,000, primarily as a result of better performance in HRTV. Net earnings from continuing operations were up 5% to \$30.9 million or \$2.20 per diluted common share.

Now if you could turn your attention to the condensed consolidated balance sheets, I will briefly review a few key variances.

Income taxes receivable decreased \$16 million, reflecting the tax expense generated by net earnings experienced in the first half of the year. In addition, the accounts receivable decreased \$4.2 million primarily due to the collection of the Kentucky Derby and Churchill Downs Spring Meet related receivables. Accounts payable and accrued expenses increased consistent with the commencement of live racing at Churchill Downs, Arlington, and Calder during the quarter.

Long-term debt decreased as a result of payments under our bank revolver using cash generated from collections of Derby-related receivables as well as the operations of our gaming and online business.

Deferred revenue decreased significantly since December as a result of the Derby and other second quarter revenues received for the spring meet.

That concludes my remarks. I will turn things back over to Bob for questions. Bob?

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Thanks Bill. Keisha, could you check to see if we have any questions this morning?

## QUESTION AND ANSWER

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**Operator**

(Operator Instructions). Your first question comes from the line of Ryan Worst with Brean Murray, please proceed.

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**Ryan Worst - Brean Murray - Analyst**

Thanks. Good morning, guys.

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Good morning, Ryan.

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**Ryan Worst - Brean Murray - Analyst**

Few questions. One, at Churchill Downs, where are you in terms of the number of race days that you race annually and what's the requirement there, if there is one?

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Bill Carstanjen, do you want to take that one?

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**William Carstanjen - Churchill Downs Inc. - General Counsel**



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Sure. In spring meet, we had signed up to run 52. We reduced that to 45 in spring. I think it's about 25 or 26 days. So there is, this year I think we'll run about 70 days give or take.

There is a requirement in statute year-to-year that you are supposed to find days consistent with the number of days you ran, and then identified here in a statute, I think its 94 perhaps. And actually, Bill Mudd just corrected me here on the side. This year we will end up running 67 days. So, that's how the statute works.

There has been some flexibility in the regulatory body in Kentucky for reducing dates below what your statutorily otherwise expected to run. So there is some precedence for reducing dates if we need to. We haven't submitted race dates for next year. That's something that we are looking at now and we'll finalize the decision later in the fall.

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**Ryan Worst - Brean Murray - Analyst**

Okay Bill. So, I'm sorry. What is the statutory requirement?

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**William Carstanjen - Churchill Downs Inc. - General Counsel**

It's to run a number of days consistent with -- I believe it's the number of days you ran in 1994.

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**Ryan Worst - Brean Murray - Analyst**

So, what was that?

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**William Carstanjen - Churchill Downs Inc. - General Counsel**

That was approximately 70 to 77.

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**Ryan Worst - Brean Murray - Analyst**

Okay.

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**William Carstanjen - Churchill Downs Inc. - General Counsel**

Accurate number of days, I can look that up after we've done here and call you back.

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**Ryan Worst - Brean Murray - Analyst**

Yeah. I understand. So, you guys are below that but you know, that's okay.

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**William Carstanjen - Churchill Downs Inc. - General Counsel**

The regulatory authority gives you --

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**Ryan Worst - Brean Murray - Analyst**

The approval? Okay.

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**William Carstanjen - Churchill Downs Inc. - General Counsel**



And there are several examples of that are happening including at the Ellis Park Meet this year where they are running substantially less than they have run in the past.

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**Ryan Worst - Brean Murray - Analyst**

Okay.

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Okay. I think Ellis Park [is instructed to be] -- I believe last year we ran 48. This year they were planning to run 23, basically running just weekends. And they have had a little better performance and I think they had expected and they've added five days back. So I think the net, net was 48 down to 28 days this summer.

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**Ryan Worst - Brean Murray - Analyst**

And then, Bob, what do you think is driving the video poker decline in Louisiana? You know, is that a function in the economy or is there something changing in terms of competition in that market?

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Bill, you want to take that one as well?

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**William Carstanjen - Churchill Downs Inc. - General Counsel**

Sure. I'm happy too. We are pretty convinced that our OTB business is actually holding up better than the New Orleans market as a whole, if you look at the performances at some of the other facilities in that marketplace. Now, we've seen some decline, but the whole New Orleans market is been down 10% give or take. So, we actually think we are showing up pretty decently in that particular environment.

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

And Ryan, if you go out and look at Louisiana state police actually publicized, you know, year-over-year gross gaming room revenue change which you can see exactly what is going on in that market.

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**Ryan Worst - Brean Murray - Analyst**

Okay. And then, did you guys say you are going to have, I kind of missed this, but you said something about the grandstand at Calder opening in October? Was that in terms of putting slot machines there? And also, how much have you spent year-to-date for the build out at Calder?

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**William E. Mudd - Churchill Downs Inc. - Executive Vice President and Chief Financial Officer**

I said that the poker room that will exist at the Calder Casino will be actually built inside the existing racing grandstand structure.

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**Ryan Worst - Brean Murray - Analyst**

Okay.

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**William E. Mudd - Churchill Downs Inc. - Executive Vice President and Chief Financial Officer**

We expect to open that in late October this year, the poker room.



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**Ryan Worst - Brean Murray - Analyst**

Okay, got it.

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**William E. Mudd - Churchill Downs Inc. - Executive Vice President and Chief Financial Officer**

Bill, on the spending do you want to take that one?

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**William Carstanjen - Churchill Downs Inc. - General Counsel**

Yeah. The only thing I would say that will have 29 poker tables Ryan, which is a question that consistently gets asked. The spending to date, we spent \$4.4 million in the current year in capital on the Calder build-out. We spent \$1.4 million last year. So, project today is about \$5.8 million.

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**Ryan Worst - Brean Murray - Analyst**

Okay. And that is still budgeted at \$85 million?

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**William E. Mudd - Churchill Downs Inc. - Executive Vice President and Chief Financial Officer**

Correct. And one point on that, because there has been some confusion on that includes the cost of the slot machines as well. It's not just the structure, it includes the machines as well.

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**Ryan Worst - Brean Murray - Analyst**

Okay. And then could you talk a little bit about the status of the compact negotiations in Florida. Where that stands? When it has to be completed by? And if that, you know, if what happens there dictates your capital spending in -- at Calder? Like could it changed if that becomes more favorable -- the tax rate?

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**William Carstanjen - Churchill Downs Inc. - General Counsel**

Bill Carstanjen. Let me take this one. So, no it won't. We planned the facility based on the higher tax rate that's currently in effect under the statute. If the governor and the Seminole Indians can agree on a compact, which I believe they need to do or not, depending on how the negotiations go, by the end of the August. I believe August 31st.

Obviously, if the tax rate falls as a result of that compact being agreed upon, we are not going to change the project that's under way. It may affect how we think about it over time. But we'll continue to build out the current structure that's based on the roughly 50% statutory tax rate that's now in effect.

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**Ryan Worst - Brean Murray - Analyst**

Okay. Saying just two more quick questions, one you mentioned an increase in the distribution for TwinSpires.com. Is that you guys going into additional states? And how many states were you in this past quarter versus last year?

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**William Carstanjen - Churchill Downs Inc. - General Counsel**

I don't know that we've got that one handy. Can we get back to you on that one?

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**Ryan Worst - Brean Murray - Analyst**



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Sure. And then just, as far as the pre-opening goes, do you expect that number to stay pretty consistent until slot facility opens or you know, how should we model that?

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**William Carstanjen - Churchill Downs Inc. - General Counsel**

Bill Mudd?

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**William E. Mudd - Churchill Downs Inc. - Executive Vice President and Chief Financial Officer**

I'm sorry. Could you say that question one more time Ryan? I'm not sure I didn't understand.

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**Ryan Worst - Brean Murray - Analyst**

Bill, the pre-opening expense you said was \$0.4 million in the quarter. Should that stay pretty consistent or how should we model that going forward?

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**William E. Mudd - Churchill Downs Inc. - Executive Vice President and Chief Financial Officer**

Well, I think the closer we get to the date which we open will start hiring a lot more of the staff. So, we'll have them you know, trained and ready to operate efficiently. So, I say as we get closer and closer to January, we are bringing in a lot more people on, which will be non-capitalizable cost. So, I would say that we'll increase over the next couple of quarters.

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**Ryan Worst - Brean Murray - Analyst**

Great. Thanks.

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

You are welcome. Keisha, any other questions?

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**Operator**

Your next question comes from the line of Steve Altebrando with Sidoti; go ahead please.

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

Hi guys.

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Good morning, Steve.

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

When you look at the growth that you are seeing in the ADW segment and say, kind of break it out between say new states, new tracks and just more penetration from the existing accounts. Is there a way you could you know give us a kind of an idea where you are seeing a majority of the growth?



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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

I think the simplest way to put that is the sort of same state, same track. It's very hard to do, because there is in and outs all during times. It's really hard to get sort of a same store sales number. But, the best analysis we've got is that the underlying growth is somewhere in the neighborhood of 15% to 20%. We sort of strip out the additional content tracks that we have available and the changes in where we are operating.

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

Yeah, that's helpful. And in terms of the EBITDA margin in that segment, you think is there room for further upside, you know this is kind of the pace going forward?

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

I would say that, you know if you look at the content calendar during the year, the first two quarters of the year are the strongest for the horse racing industry. I think the third is the least strong in terms of you know total handle. So there is some seasonality in the ADW space because of the volume, the Triple Crown happening in the second quarter, things like that. So, I'm not sure if that helps your answer, but --

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

How about on a year-over-year basis, do you think there is still room to improve on the margins?

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Yeah. I mean, I think there's definitely some volume leverage in that type of business where you that you can still take advantage of --

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

Okay. And the pre-opening cost that you mentioned for Calder, are you including that in the capital spend \$85 million number, if not is that you know how sizeable of a number would the pre-opening be about?

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

If we answer that question is actually yes and no. In the \$85 million number there is included in that number an annual license fee of \$3 million, which we start amortizing in the third quarter. So, and unfortunately that expense will be I guess going back to Ryan's question, will be an additional increase in non-capitalized spending, you will see in the third quarter and going forward results. Does that answer your question?

The other expenses are personnel related, non-capital people cost that you know as we get closer to opening date, we'll continue to bring staff onboard to make sure we have all the right control mechanisms, processes, and training done as a part of it.

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

But that would not be included in the \$85 million?

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**William E. Mudd - Churchill Downs Inc. - Executive Vice President and Chief Financial Officer**

No, it's not included in the \$85 million.

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

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Does the \$85 million include the capitalized interest and, it's pretty small figure but?

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**William E. Mudd** - *Churchill Downs Inc. - Executive Vice President and Chief Financial Officer*

Yes. It does. And it is a small figure.

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

Okay and then in the quarter looks like there was and the cash flow statement -- purchase minority investments -- is there, can you elaborate on that?

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**Robert L. Evans** - *Churchill Downs Inc. - President and Chief Executive Officer*

That's mainly HRTV and TrackNet Media spending.

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

Okay, and then the last question is once you are fully up and running in Calder, you guys are going to be in a position of generating a lot of cash and having very little debt. Is there any color that you can put as what you plan on doing with all this cash? Good problem to have obviously, but --

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**William E. Mudd** - *Churchill Downs Inc. - Executive Vice President and Chief Financial Officer*

Now we are looking at every opportunity that one might think would fall within our scope of interest, but beyond that we are not going to comment on any specific deals or initiatives.

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

Okay, thanks guys

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**William E. Mudd** - *Churchill Downs Inc. - Executive Vice President and Chief Financial Officer*

You are welcome, thanks Steve.

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**Robert L. Evans** - *Churchill Downs Inc. - President and Chief Executive Officer*

Thanks guys.

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**Operator**

Your next question comes from the line of Steven Wieczynski with Stifel Nicolaus. Go ahead please.

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**Steven Wieczynski** - *Stifel Nicolaus - Analyst.*

Yeah good morning, guys.

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**Robert L. Evans** - *Churchill Downs Inc. - President and Chief Executive Officer*



Good morning, Steve.

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**Steven Wieczynski - Stifel Nicolaus - Analyst.**

I apologize if I missed this but when I look at the gaming revenues had a pretty substantial increase -- you know was up 31% -- and the margin was substantially down, can you kind of give a little color on the disconnect there.

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Yes, there are two issues. One, as we discussed, video poker in Louisiana experienced a decline. Not I mean -- very much consistent with the rest of decline in that market, which you can see from publicly made available information from the Louisiana state police. So that cost us about \$400,000 of EBITDA, and then there is another \$400,000 that was cost -- was cost associated with building out Calder, that's in that segment that was not capitalizable. So you had expense without revenue at the Calder location.

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**Steven Wieczynski - Stifel Nicolaus - Analyst.**

Okay, got you. Has your CapEx forecast for the year changed at all Bill?

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**William E. Mudd - Churchill Downs Inc. - Executive Vice President and Chief Financial Officer**

I mean, what forecast are you looking at, just so I'm connected.

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**Steven Wieczynski - Stifel Nicolaus - Analyst.**

Just what you are going to spend in total, in terms of the capital this year?

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**William E. Mudd - Churchill Downs Inc. - Executive Vice President and Chief Financial Officer**

Yes. It hasn't changed.

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**Steven Wieczynski - Stifel Nicolaus - Analyst.**

Okay and then Bob, finally, you know you touched on that earlier, but just when you look at Kentucky in terms of potential slots opportunity I guess. With Ohio now, you know, eventually going to have, looks like slots at tracks and even full-blown casinos, what kind of pressure you think that's going to eventually put on Kentucky?

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

A lot. You know, it's not just Ohio. I mean that's certainly going to be a problem. But there's more racinos coming online in other states as well. We are building one. Right. Calder.

So, people will look at the states that have casino game going at the race tracks, they count the states and they think it is sort of static, it's not actually almost in every state there's more casinos opening, and then Ohio will just exacerbate the problem.

So we've got a significant problem here and at some point, I'm confident that the legislature will understand the problem and will listen to needs of the Kentucky horse industry and will take the appropriate action. But it's tough to get that done right now. But we are going to keep pounding on that nail.

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**Steven Wieczynski - Stifel Nicolaus - Analyst.**



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Okay gotcha. Thanks guys.

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Thanks Steve. Keisha, any other questions?

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**Operator**

There are no further questions.

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**Robert L. Evans - Churchill Downs Inc. - President and Chief Executive Officer**

Well thanks, everyone, for joining us today. A special thanks to Julie Koenig-Loignon and John Asher for filling in on the communications side of our business. Thanks guys. Thanks for joining us and talk to you in another quarter. Have a great what's left in the summer. Bye, bye.

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**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect, good day.

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