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PRESENTATION

Operator

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

I would now like to turn the presentation over to your host for today's call, Mr. Kevin Flanery, Senior Vice President for Churchill Downs Inc. Please proceed, sir.

Kevin Flanery - *Churchill Downs, Inc. - SVP*

Thank you, Shaquanna. Good morning and welcome to this Churchill Downs Inc. conference call to review the Company's results for the first 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 the Company's website titled Company News 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 a 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 Inc. 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 - *Churchill Downs, Inc. - President & CEO*

Thanks, Kevin. I will make a couple of very quick comments about Q1 and then I will turn it over to our CFO, Bill Mudd, who will take you through the details. Following that I would like to make a few more comments and then we will be happy to take your questions.

We are quite pleased with our Q1 performance in what we all now know is a very tough economy. Q1 revenue was up 12%. You will recall that our Q1 revenue last year was up 37% over Q1 2007 so growth continues.

We also continue to manage our costs effectively with Q1 operating expenses up only 3% and general and administrative costs up 2%. Total prior-year EBITDA of $9.3 million included $17.2 million of insurance recoveries. Total current year EBITDA of negative $0.9 million includes $2.2 million of source market fees net of purse expenses received from the NTRA who had been holding them in escrow.

Racing operations EBITDA decreased $15.4 million primarily as a result of the recognition of the insurance recoveries in the prior year, while EBITDA from gaming and online operations were up. Gaming generated $17.9 million in net revenue, up 43% over the prior year, and our online business generated $16.7 million in net revenue, a 19% increase over the first quarter of 2008.

Cash flow from operating activities in Q1 was $28 million. We paid down $11 million on our revolver ending the quarter at about $32 million in long-term debt. Since then we have paid this down by about another $27 million.

We think that is notable for two reasons. First we have managed to reduce debt while creating two new profitable growth assets over the last 24 months -- our TwinSpires.com online wagering business and our slot operation at Fair Grounds. Combined we have invested over $120 million in these two new businesses.

And, two, we have the balance sheet capacity to fund the development of the casino at Calder and to pursue other potential opportunities so a very solid Q1. Let me now turn this over to Bill.

Bill Mudd - *Churchill Downs, Inc. - EVP & CFO*

Thank you, Bob, and good morning, everyone. I will be reviewing the information as set forth in the tables of the press release that can be found under the Company News section that Kevin referred to earlier, which is on our website, www.ChurchillDownsIncorporated.com. Following my comments I will turn it back over to Bob for some final thoughts before we open up the call for questions.

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

Let's begin by first reviewing the segment information which is contained in the schedule that is titled 'Supplemental Information by Operating Units' in the release. Total operations -- total racing operations net revenues from external customers for the first quarter of 2009 were $39 million. This was even with the same period of the prior year.

We conducted only 61 days of live racing; 59 of these days were at Fair Grounds Race Course while two days were at Calder. Arlington Park and Churchill Downs racetrack only conducted simulcast operations.

All things considered, we are very pleased with the results of our live meet at Fair Grounds. Total handle at Fair Grounds was down about 8% during the first quarter, slightly better than reported industry decline of 9%. At our Arlington Park property we reached an agreement with the Illinois Thoroughbred Horsemen's Association on source market fees being held in escrow related to an agreement with TVG.

This resulted in a one-time $4.3 million recognition of revenues. This offset declines in pari-mutuel activity across each of our other properties.

Our online business increased net revenues from external customers by 18% to $16.7 million as we benefited from expansion into new states during the fourth quarter of 2008 as well as from new features to the TwinSpires.com platform, such as Twin Spires TV and conditional wagering.

Our gaming business grew net external customer revenues by $5.4 million or 43% on the introduction of the permanent slots facility in November. This new facility more than doubled the number of machines to 606 machines from 245 in the previous year. The new facility continued to exceed our expectations with gross win per unit per day of $243.

Now let's look at the EBITDA performance by segment at the bottom of the page. Our racing EBITDA performance was unfavorable versus prior year by $15.4 million. This reduction is driven by the final insurance recovery related to Hurricane Katrina of $17.2 million recognized in the first quarter of 2008. Partially offsetting this decline is the $2.2 million EBITDA impact of the source market fees previously mentioned.

The impact of the pari-mutuel declines were mostly offset by better cost controls resulting in a net decline of $400,000 for the remainder of the Racing Operations segment. Our Online Business EBITDA improved by $3 million year-over-year driven by increases in handle, up 25%, but also included improvements in HRTV operations. Our Gaming Business EBITDA improved by $2 million driven by the opening of the permanent slots facility and the corresponding increase in the number of machines.

Total EBITDA was a loss of $0.9 million for the quarter, a reduction of $10.2 million versus the prior year. The decline is primarily the result of the one-time insurance recovery in 2008 partially offset by a $3 million improvement in our Online Business, $2 million improvement in our Gaming Business, and the one-time recognition of net source market fees for $2.2 million.

Now if you would please turn to the table that is titled 'Condensed Consolidated Statements of Net Earnings.' As Bob mentioned, we grew total net revenues from continuing operations by 12% or roughly $8 million. Approximately half of this growth is attributable to the one-time source market fee recovery previously mentioned. The other half is driven by our new permanent slots facility in New Orleans and growth in our Online Business partially offset by losses in pari-mutuel revenues.

Despite revenues growing at 12% year-over-year, our operating and SG&A expenses grew much slower at 3% and 2%, respectively. I would also point out that operating expenses include purses, which increased 14% on the contribution of slots and the source market fee receipts. The remainder of the other operating expenses were down 1% year-over-year on better cost controls.

Interest expenses improved by $600,000 on lower debt balances and equity losses in unconsolidated investments improved year-over-year by $1.2 million, primarily as a result of better performance in our investments in HRTV and TrackNet Media. Our fully diluted earnings per share from continuing operations for the quarter was a loss of $0.37, down from a gain of $0.06 in the first quarter of 2008 which included insurance recoveries.

And the last schedule, if you can turn your attention to the schedule titled 'Condensed Consolidated Balances' I will briefly review some of the changes. Restricted cash decreased $8.2 million due to the payout of purses at the end of the Fair Grounds meet during the first quarter consistent with our meet ending during March.

Accounts receivable decreased $18.2 million from year-end as a result of the collection of Derby-related receivables as well as the collection of simulcast receivables generated during the fall of 2008 racing seasons. Our current assets increased $5.9 million as we prepaid our 2009 annual insurance premiums during the quarter. Deferred revenue increased since December as a result of additional first-quarter billings of Kentucky Derby-related and live race meet memberships at Churchill Downs that we recognized as revenues in the subsequent quarters.

And long-term debt decreased as we have been able to utilize cash generated from operating activities to pay down our revolver. Since the end of March we have paid down an additional $15 million. The balance currently stands at $17 million and today we will pay that down to less than $5 million. With that I will turn it back over to Bob for some final comments.

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

Thanks, Bill. Sorry I am fighting a cold here today. With the Derby just last weekend let me fill you in on some information about that and offer a couple of comments about our racing business in general.

Total handle for the pari-mutuel industry in the US as published by the National Thoroughbred Racing Association declined by 7% during the year ending December 31, 2008, compared to 2007. According to Equibase, US thoroughbred handle is off 9.5% through April of this year. We are noting that other tracks are starting to see significant declines in the number of horses starting each race.

As field sizes decline races become less competitive as betting product and handle is reduced. Lower handle leads to lower future purses and the cycle spirals downward. This seems to be happening primarily at those tracks whose purse accounts are funded solely by handle and not supported by alternative gaming revenues.

The solution for tracks without slots is to cut purses, to cut races and race days, or to cut all three. We have recently seen both smaller tracks, such as Ellis Park and Turfway, as well as bigger tracks, such as Hollywood Park and Del Mar, announce such reductions. We are watching the field size issue closely so that we can make adjustments as appropriate.

We do not believe that tracks without slots can compete over time for horses with those tracks that have slots. We believe that the decline in the 2008 and 2009 handle combined with the huge oversupply of racing in this country is only amplifying the competitive disadvantage we face without slots at Churchill Downs and Arlington Park.

You have undoubtedly noticed that our financial results are increasingly benefiting from our investments in our Gaming and Online Businesses. Because the growth rates of these new businesses are higher than Racing's we will continue to see them grow as a percentage of our total revenue and profits. This leads some to conclude that we are somehow abandoning racing.

This conclusion simply ignores the fact that every single dollar spent by Churchill Downs on slot operations and online operations produces more purses for horsemen at CDI tracks, expands the customer base to which we can market racing, and makes CDI a stronger financial entity which enables us to make more investments and take greater risks.

We aren't abandoning racing, we are rebuilding it. And given the rather precarious financial situation facing the industry, where we believe that no US racetrack earns its cost of capital, you better be in a strong financial position before you begin the renovation work.

Rebuilding racing in the US is not going to happen overnight. There is no one silver bullet, it's not going to be without mistakes, and there is not going to be an ever-increasing straight line from here to there. To rebuild racing we are going to have to change the product, change how it's presented and to whom.

Let me use last weekend's Kentucky Oaks and Kentucky Derby as illustrations. Handle in the US thoroughbred market in April was down 10.1% for the month and the eight major Derby prep races were also down 10%. Combined handle of $186 million on the Kentucky Derby and Kentucky Oaks was down 5% from 2008. It was one of the largest combined handles in our history so Oaks and Derby did pretty well.

Total attendance at the two events was just over 258,000. It was the fourth-largest combined attendance in history and flat with 2008. Attendance is off about 6% for NASCAR and 5% for Major League Baseball with similar declines for other sporting events so far this year. So we feel pretty good about the Oaks and Derby.

There are other ways of participating in the Derby besides attendance. In 2007 we started building on the idea of expanding the Derby's reach via television and the Internet. Overnight TV ratings for the Derby's telecast on NBC were the highest in 17 years, so we feel like we made considerable progress in that channel. And our online properties continued to grow up about 10% to 40% this year.

Our Lucky You online mobile game drew 441,000 responses, up 16% over 2008, and 40% of those responses opted in for more information on the Kentucky Derby. Our online Road to the Roses game had 11% more players this year. Our KentuckyDerbyParty.com website had 300,000 visitors from 120 different countries on six continents and there were 46,500 partygoers via KentuckyDerbyParty.com, up 39% over 2008. The KentuckyOaks.com and KentuckyDerby.com websites handled a combined 2.2 million unique visitors, up 21% over 2008.

And, finally, our online wagering platform TwinSpires.com has been outperforming all year with handle up 25% through the first quarter as compared to the first quarter of 2008.

Now we are still finalizing many numbers so this is very preliminary, but it appears that the EBITDA performance of Derby week will be down about $2 million to $3 million over 2008. While premium seating was in strong demand, we saw some softness in sponsorships, supplemental seating, and corporate hospitality areas like Marquee Village, which were driven by the deteriorating economy.

With that we will now be happy to take any questions you might have. Shaquanna, if you could see if we have any questions, please?

QUESTION AND ANSWER

Operator

(Operator Instructions) Steve Wieczynski, Stifel Nicolaus.

Steve Wieczynski - ***Stifel Nicolaus - Analyst***

Good morning, guys. Bill, first question for you. I am not sure if I missed this, but can you go through the debt again? You said you ended the quarter at $32 million. I think you said you took it down another $17 million, so it stands at $15 million. And you said -- did you say you were taking it down to $5 million today?

Bill Mudd - ***Churchill Downs, Inc. - EVP & CFO***

I am sorry. We took it down $15 million during the month of April so it stood at $17 million at the end of April. And we are going to take it down another $12 million to $14 million today.

Steve Wieczynski - ***Stifel Nicolaus - Analyst***

So you will be around $5 million I guess?

Bill Mudd - ***Churchill Downs, Inc. - EVP & CFO***

We will be less than $5 million by the end of today.

Steve Wieczynski - ***Stifel Nicolaus - Analyst***

Okay. Then for Bob, maybe if you could touch on the news that came out last night in Florida where it looks like Dade County is going to get some tax relief it looks like going to a 35% tax rate. Just your thoughts on that and then Calder long-term.

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

Yes, we haven't actually seen the bill so I don't want to make too many comments because I don't know what the details of it actually are. But, in general, lower tax rates are preferred. We continue to move forward with the construction of the Calder slot facility with a planned opening date very late this year or early part of 2010.

Steve Wieczynski - ***Stifel Nicolaus - Analyst***

Okay. Then last question for you. Also not sure if you are going to answer this, but can you give us an outlook in terms of are you sniffing around other assets at this point?

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

Just as a matter of policy we don't comment on any potential M&A activity.

Steve Wieczynski - ***Stifel Nicolaus - Analyst***

Okay, great. Thanks, guys.

Operator

Steve Altebrando, Sidoti & Company.

Steve Altebrando - ***Sidoti & Company - Analyst***

Thanks for the color on the Derby by the way, but the margins in the Online segment really jump out to me. I guess how should we view them? Is that kind of a sustainable level? Do you think you can grow with that as the top line moves higher?

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

Well, I think there are maybe two answers to that question. I think we -- having fought many battles from early 2007 through the end of last year, I think we have reached sort of a point of stability in the pricing of signals in the advanced-deposit wagering market. So I would expect the pricing of signals to pretty much remain constant. And that affects our cost of content that we have to pay other tracks and our own tracks for the right to wager on the races and the right to the video signal.

As far as the performance of TwinSpires.com, I think there is still some operating leverage to be had. We are being pretty aggressive around innovation in that channel right now. That won't continue forever, but it will continue at least through this year and into next year.

Steve Altebrando - ***Sidoti & Company - Analyst***

Okay. Any states that you are not operating in that you could potentially move into?

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

It's something we have a very rigorous process on that we look at twice a year and review all of the conditions. There is no plans right now to go into any additional states.

Steve Altebrando - ***Sidoti & Company - Analyst***

Okay. All right. Thanks, guys.

Operator

Ryan Worst, Brean Murray.

Ryan Worst - ***Brean Murray, Carret & Co. - Analyst***

Thanks. Good morning, guys. Just some follow-up questions on TwinSpires, how many states are you guys in now?

Bill Mudd - ***Churchill Downs, Inc. - EVP & CFO***

I believe we are in 36 states at the end of March.

Ryan Worst - ***Brean Murray, Carret & Co. - Analyst***

Okay.

Bill Mudd - ***Churchill Downs, Inc. - EVP & CFO***

We were in 32 at the end of the first quarter last year. We added four states.

Ryan Worst - ***Brean Murray, Carret & Co. - Analyst***

I think in the June quarter that will be the first quarter where there is much more open access in terms of other wagering platforms having access to your racing signals and Magna racing signals. How should we look at that affecting you guys in terms of, I guess, it's going to be increased competition? Are you making up some of that lost wagering that you might see online through higher host fees or how do you expect that to play out?

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

Well, you have got part of it there I think which is other ADW operators take the Churchill track signals; that produces additional host and source market fee revenue for our track operations. I think that is one plus.

The other one is, and we have said this for over two years now, that we wanted to get to a world where all of the ADW operators had access to all of the signals. I think we are very close to that point and I think that is a healthy thing because I think it keeps the customer happier. And it puts the ADWs in a position where they need to compete on features and functions and innovation rather than just controlling of the signals.

So I think it's basically a good thing and I feel very good about our competitive position. I think we can hold our own in that market even though everybody has got all signals at this point.

Ryan Worst - ***Brean Murray, Carret & Co. - Analyst***

Okay. Is there any tracks that you are getting the signals to at TwinSpires that you didn't have before?

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

Well, I can give you one. Just in April we have access to the Keeneland signal, which we didn't have previously. Right now I am not sure that there is any at this point.

Bill Mudd - ***Churchill Downs, Inc. - EVP & CFO***

Well, we had access to the Churchill Downs signal, which we didn't have last year as well.

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

Yes, that is true.

Ryan Worst - ***Brean Murray, Carret & Co. - Analyst***

Okay. Same thing with Calder and Arlington too?

Bill Mudd - ***Churchill Downs, Inc. - EVP & CFO***

Calder and Arlington as well. We also have Calder and Arlington are on our competitors' ADW platforms as well.

Ryan Worst - ***Brean Murray, Carret & Co. - Analyst***

Okay. Then, Bill, in terms of CapEx for Calder, how much did you spend in the first quarter and how much is there left to go? And have you guys said how many slots you are going to introduce there?

Bill Mudd - ***Churchill Downs, Inc. - EVP & CFO***

I don't believe we have mentioned how many slots. That is something that we are continuing to look at as we build that out. So far in -- I think I have got a page here. Hang on just on second.

So far in CapEx we have spent $3.2 million or excuse me -- yes, $3.2 million.

Ryan Worst - ***Brean Murray, Carret & Co. - Analyst***

And the budget for that, Bill, is still $85 million?

Bill Mudd - ***Churchill Downs, Inc. - EVP & CFO***

Yes, it's still $85 million. Not all of that will be spent this year. I know it's kind of hard to say exactly what the timing of that will look like. I expect part of that will fall into the first quarter of next year looking at the calendar today.

Ryan Worst - ***Brean Murray, Carret & Co. - Analyst***

And then, Bob, how would you think that Barney Frank's online wagering bill in front of Congress would affect TwinSpires and just the racing industry in general online?

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

I think generally it's a good thing. You can view it as more competition, but at the same time I think it opens up new opportunities for us and others.

Ryan Worst - ***Brean Murray, Carret & Co. - Analyst***

Like what kind of opportunities?

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

It gives us the opportunity to participate in any new forms of gaming that would be legal online.

Ryan Worst - ***Brean Murray, Carret & Co. - Analyst***

Okay. Any movement on the status of potentially legalized slot machines in Kentucky?

Bob Evans - ***Churchill Downs, Inc. - President & CEO***

I am not sure I could describe it as progress necessarily in any sort of quantitative way, but I think it's an issue that is an issue of the moment. The legislators are going to hopefully deal with that over the next couple of months so we will see. I think there is a lot of momentum to get it done right now but that requires others to act.

Ryan Worst - *Brean Murray, Carret & Co. - Analyst*

Okay, thank you.

Operator

At this time I would now like to turn the call over to Mr. Bob Evans for closing remarks.

Bob Evans - *Churchill Downs, Inc. - President & CEO*

Thanks very much for joining us, folks, and see you in a quarter. Bye-bye.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect and have a great day.