

**Thomson StreetEvents**<sup>SM</sup>



## Conference Call Transcript

CHDN - Q3 2009 Churchill Downs Inc. Earnings Conference Call

Event Date/Time: Oct 29, 2009 / 01:00PM GMT



## CORPORATE PARTICIPANTS

**Bob Evans**

*Churchill Downs Incorporated - CEO*

**Bill Mudd**

*Churchill Downs Incorporated - CFO*

**Liz Harris**

*Churchill Downs Incorporated - VP - Communications*

## CONFERENCE CALL PARTICIPANTS

**Steve Altebrando**

*Sidoti & Company - Analyst*

**Amit Kapoor**

*Gabelli & Company - Analyst*

**Ryan Worst**

*Brean Murray - Analyst*

## PRESENTATION

---

**Operator**

Good day, ladies and gentlemen and welcome to the Q3 2009 Churchill Downs Incorporated Earnings Conference Call. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of this conference. (Operator Instructions).

I'd now like to turn the call over to Liz Harris, Vice President of Communications at Churchill Downs Incorporated. Please proceed.

---

**Liz Harris - Churchill Downs Incorporated - VP - Communications**

Thank you, Antoine. Good morning and welcome to this Churchill Downs Incorporated conference call to review the company's results for the third quarter of 2009. The results were released yesterday 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](http://churchilldownsincorporated.com). Let me also note that a news release was issued advising of the accessibility of this conference call on a listen-only basis via phone and over the Internet.

As we begin, let me express that some statements made during this call will be forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, expectations, or beliefs about future events or results or otherwise are not statements of historical fact.

The actual performance of this Company may differ materially from what is projected in such forward-looking statements. Investors should refer to statements included in reports filed by the Company with the Securities 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 will be available to answer questions after some formal remarks.

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



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

Thank you, Liz. Good morning everyone. We appreciate you joining us. I'll make a few comments and then our CFO, Bill Mudd, will take you through the numbers. After that, as Liz said, we will be happy to take your questions.

Tough quarter. On a continuing operations basis, revenue grew 1%, EBITDA was down 12% and net income from continuing operations dropped from \$2.3 million to a \$1.2 million loss.

Let's start with our racing business. According to Equibase's figures, Q3 handle in the US was down 10% from Q3 2008. We did a little better than that. Handle at Arlington Park was down 5% during the quarter and handle at Calder was also off 5% compared to the third quarter of 2008.

Our total racing segment EBITDA as reported decreased \$1.3 million, but there is more to that story. The following one-time transactions affect the comparison of racing EBITDA between the third quarter of 2009 and the third quarter of 2008. The \$2.4 million real estate tax refund gain at Arlington, that's a good guy; the \$2.5 million insurance gain at Calder, another good guy; the \$1.5 million per supplement cost at Churchill Downs, a bad guy; and a negative comparison effect of the \$1.0 million purse recovery at Arlington that was booked in last year's Q3, another bad guy. A decline of \$3.7 million in racing EBITDA from Q3 2008 related to lower pari-mutuel wagering as well as lower group concession and sponsorship revenues more than offset the net positive impact of these one-time transactions.

If there is a bright side, September, according to figures published by Equibase, was the best month of the year so far and that industry handle was off only 0.9% compared to September 2008. So while we're gaining share of total industry handle, until employment and discretionary income pick up we likely won't see any significant improvement in our racing segment handle or racing EBITDA performance.

Meanwhile, we continue to innovate and to invest to make racing at CDI tracks better. We announced on September 28 that we plan to install permanent lights at Churchill Downs. Our experiment last summer with night racing was a success, bringing nearly 90,000 people out to the track on those three nights. We think we now understand how to make night racing a profit contributor and we will make it a limited, but regular feature at Churchill Downs starting with our Spring Meet in 2010.

We announced Monday of this week that we will broadcast live race video from Fair Grounds in high-definition format when their meet starts on November 6. With nearly 90% of all handle wagered away from the track where the race actually takes place, we think it is extremely important that our customers have access to high-definition live race video.

Today, only Churchill Downs, Keeneland and now Fair Grounds have made the investments to broadcast live race video in high-definition. We will pick up Arlington Park and Calder next year. Today, very few tracks and off-track betting operations, or OTBs, have the equipment to produce, transmit, receive and display high-definition video signals. While we are making those investments at CDI tracks and at our OTBs, most other operators don't have the financial resources to do so at this time.

However, the advance-deposit wagering, or ADW channel, is ready to utilize high-definition signals; I have to say the quality is excellent. This illustrates how the ADW channel can significantly improve the cost structure of thoroughbred racing. With ADW, the customer provides his or her own PC, which performs the functions of being both a multi-thousand dollar TOTE terminal and a multi-hundred dollar high-definition TV monitor. Just for reference, across CDI tracks and OTBs we have over 7,000 TV monitors and over 3,000 TOTE terminals.

In addition, the customer pays for the network connection and provides his or own pari-mutuel labor to place a bet, which is the biggest labor cost component of track operations. If you haven't already done so, checkout the high-definition video on TwinSpies.com or TwinSpies.tv. You can watch Keeneland races in high-def this month and both Churchill Downs and Fair Grounds races in November.

On September 25, the National Thoroughbred Racing Association, or NTRA, announced that our Calder racetrack has been fully certified by their Safety and Integrity Alliance. Arlington Park, Churchill Downs and now Calder have been fully accredited. Fair Grounds plans to complete the certification process yet this year. All four CDI tracks will be fully accredited this year while only about a third of all 55 Safety and Integrity Alliance tracks will be fully accredited by the end of 2009.

Finally, we announced last week that we have reached a three-year purse agreement with Kentucky Horsemen that extends through the Spring Meet in 2012. As part of this important agreement, we will provide \$1.5 million in purse supplements over the next three years.

Why do that? Well, decisions are being made daily by Kentucky horse owners and trainers about where they will race in 2010 and beyond. We are concerned that because of the delay and uncertainty about the future of slots and tracks in Kentucky, which has been fostered by a small



number of politicians, many horsemen may make the decision to move their operation to other states that have slots at their tracks. And once they move their operation, move their homes and their families, it's going to be very tough to get them back to Kentucky. This \$1.5 million purse supplement is intended to try to help keep as many horses and as many horsemen as possible in Kentucky at least through 2010 to see how the legislative process plays out next year.

Obviously we can't do this forever, but it seemed like a good investment in the future of racing in Kentucky and at Churchill Downs. We recognized the entire \$1.5 million expense during Q3 2009.

Our online segment did better. TwinSpires.com had a terrific quarter and it was up 43% over the third quarter of 2008. When the third quarter ADW data becomes available for the various ADW operators, we think we'll find that the TwinSpires.com did quite well by comparison.

Online segment EBITDA was up \$0.7 million or about 31% in the quarter. Each month during the quarter handle growth got stronger on a year-over-year basis. TwinSpires.com's July handle was up 32% over July 2008. August was up 47%. September was up 54% and it looks like we will be up over 26% in October even though the Breeders' Cup was in October last year, but will be in November this year.

I think we and the thoroughbred racing industry are failing to recognize how important the ADW business has become to our future success. Five things are true about ADW wagering.

One, it returns more money to the horsemen and tracks to put on the race that's being wagered on in the same bet place through the simulcast network at an out-of-state track or OTB and this is how the majority of our handle is wagered.

Two, every time a track or OTB closes, we lose another retail outlet for our product. Think about the tracks and OTBs that have closed or that have been through the bankruptcy process in the last 18 months and the negative effect that has had on the confidence of betters. ADW wagering replaces those bricks and mortar outlets, which are no longer economically viable.

I would also note here how important the ADW channel is to our night racing initiative. With many tracks and OTBs closed at the time of night when we conduct night racing, we are very dependent on the ADW channel.

Three, the ADW channel is the only growing channel in an industry that's declining and we need handle growth.

Four, customers like it. That's why it's growing. And why do they like it, because it's a faster, less expensive, more convenient better option.

And five, we think it is the best opportunity we have to find new fans and customers for racing. If anyone thinks we are going to find 20 and 30-year olds, our fans of the future, at a racetrack for five hours on a weekday afternoon, if anyone thinks that we will find them with newspaper and billboard ads in an Internet-enabled world, well, good luck with that.

Onto gaming, another bright spot, EBITDA from our existing gaming operations was flat in the quarter compared to the prior year. Current year gaming EBITDA included \$0.5 million in non-capitalizable, if that's a word, \$0.5 million in non-capitalizable pre-opening and startup expenses from the Calder Casino project.

Slots at Fair Grounds are doing fine. Q3 gross win per unit there was \$180 and the video poker business in New Orleans is a bit weak.

We believe we have made some progress in Kentucky on getting slots approved at Churchill Downs racetrack. The slots bill that was introduced earlier this year and that is supported by the governor passed the Kentucky House, but failed to get out of the Republican controlled Senate Committee. At that time, the senate consisted of 21 Republicans, 16 Democrats and one Independent. During Q3, a special election was held to fill one of the senate seats where the Republican incumbent resigned to take another government job. The Democrat candidate won that election making it 20 Republicans, 17 Democrats and one Independent.

Another Senate Republican resigned on Monday of this week to take a state judicial post and a special election to fill that seat will occur on December 8. A victory by the Democratic candidate in that election would leave us with a senate comprised of 19 Republicans, 18 Democrats, and one Independent. This we believe would improve our chances of getting the slots bill passed when the legislature convenes in January of next year.

So there is racing, online and gaming. I'll let Bill explain everything else, which includes a number of other unusual transactions.



Looking a bit forward, our Studz Poker room opened with 29 tables at Calder last Friday. It's just too soon to have any meaningful numbers on its performance, but we're glad that's open. We'll open a new OTB with 75 video poker machines in Chalmette in the New Orleans area on December 1. This will increase our number of video poker machines at Fair Grounds OTBs by about 10%.

The new Calder Casino is expected to open in late January a couple of weeks before the Super Bowl and Pro Bowl will take place across the street at Land Shark also known as Dolphin Stadium. We anticipate that the Calder Casino with its previously disclosed \$85 million total cost will open with 1,225 machines, will generate about \$200 to \$250 win per unit and will produce about \$80 million to \$100 million in annual full year gross gaming revenue.

We recently received the right to have electronic table games at Calder such as blackjack and roulette. Technically these are slot machines that emulate table games. And while we haven't fully yet completed our planning for this change, we're optimistic that it will further improve the financial performance of the casino.

Finally, let's take a very quick look at the first nine months of 2009. Revenues from continuing operations were up 3%, operating expenses from continuing operations were up 2%, G&A expenses were down about 0.5%. Our EBITDA margin decreased from 23% to 19% and EBITDA was down 13%, but this was primarily as a result of the \$17.2 million in insurance recoveries that we recorded during the comparable 2008 period. The diversification of our revenue streams resulting from our growing gaming and online businesses combined with very effective cost controls is making us a more profitable company.

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

---

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

Thank you, Bob, and good morning everyone. I will be reviewing the information as set forth in the tables to the press release that can be found on the company section that Liz referred to earlier, which is at our website, [www.churchilldownsincorporated.com](http://www.churchilldownsincorporated.com). Following my comments, we'll open the call for a Q&A in which Bob and I will respond to your questions.

As a reminder from our previous calls, the discontinued operations section of our financial statements and tables contain the operations of Ellis Park and Hollywood Park. My comments will focus on our performance from continuing operations for the three months ended September 30, 2009.

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

As Bob mentioned in his comments, according to the figures published by Equibase, industry handle was down 10% year-over-year in the third quarter. We also felt the impact of that industry decline across our tracks, but to a lesser extent. In our quarterly 10-Q filing, Arlington Park and Calder both reported handle declines of 5% in the quarter, which was better than the industry -- the total industry.

Our Fair Grounds racetrack only conducted simulcast operations while Churchill Downs racetrack only conducted four days of live racing in the quarter. Surprisingly, each of our racetracks reported a net revenue decline from external customers of 7% in the quarter for a total of \$5.5 million. \$3.8 million of this decline is related to pari-mutuel wagering while \$1.7 million is ancillary revenue such as admissions, sponsorships and food and beverage.

We are seeing a reduction in per capita spending on these items, which we believe is a result of the weak economy. Overall we think these are very positive results when you couple the industry decline with the casino construction disruption at Calder and the fact that Arlington had limited competition in the ADW distribution channel during 2008.

Our online business grew handle 43% during the third quarter and net revenues from external customers grew 33% to \$17.4 million. The growth in handle is driven by access to new racing content as well as an increase in customers and an increase in average daily wagering activity of existing customers. As Bob mentioned, we believe we are doing well compared to other ADW operators. Partially offsetting the increase in ADW pari-mutuel revenue is a decline in our data business, BRIS. Unfortunately these products are also susceptible to reductions in discretionary spending.



Our gaming business grew net revenues from external customers 22% in the quarter driven by Fair Grounds slots, which opened its permanent facility in November of 2008. We continue to be pleased with the performance of this facility with gross win per unit per day of \$180.

In total, our quarterly net revenues from continuing operations were up slightly to \$100.9 million in the quarter.

Dropping to the bottom of the segment data, I'll highlight some of the EBITDA changes by segment in the quarter. In total, EBITDA from continuing operations decreased \$1.4 million. There are, however, a number of unusual items that both favorably and unfavorably affected our results. I'll describe each of them in the segments affected.

Our racing operations EBITDA declined by \$1.3 million. Included in this number is a real estate tax refund of \$2.4 million from the State of Illinois related to taxes paid from 2001 to 2006 for Arlington Park. It also includes an insurance recovery related to an employee theft in our Calder facility of \$2.5 million.

On the unfavorable side, we recognized \$1.5 million of purse expense to be paid over three years related to a new three-year purse agreement for Churchill Downs racetrack. While this expense was recognized during the third quarter of 2009, we hope to benefit from it during the next three years from purses that attract more and better horses to Churchill Downs.

Also on the unfavorable side, Arlington finished recovering purse monies overpaid during 2002 totaling approximately \$100,000 during the quarter. Since we recovered approximately \$1.1 million in the third quarter of 2008, this resulted in a \$1 million reduction in EBITDA versus the same period of 2008.

There were a number of other events negatively affecting EBITDA such as the Churchill Downs racetrack flood, which I'm sure you read about in the national media, and legal fees related to the Illinois Horse Racing Equity Trust Fund, which I will discuss later, and our dispute with the THG. The remaining reductions in EBITDA are driven by lower pari-mutuel wagering and ancillary revenues previously discussed.

Our online business' EBITDA increased 31% to \$2.8 million, driven primarily by increased wagering content and increase in customers and an increase in average daily wagering activity of existing customers as previously mentioned. Partially offsetting the increases driven by handle growth in the segment is a year-over-year increase in compensation expense associated with a long-term incentive plan of approximately \$700,000.

Our gaming EBITDA decreased 11% in the quarter or \$0.5 million. This reduction is a result of startup costs associated with the Calder Casino, which also totaled \$0.5 million in the quarter. I will remind you that this cost will increase as we bring more people on board for training the closer we get to our scheduled opening date in late January.

The growth of EBITDA from our Fair Grounds slots business was offset with reductions in our video poker business, primarily from a very aggressive marketing campaign aimed at attracting new video poker customers.

During the quarter, we spent \$344,000 more on advertising and marketing that wasn't as successful as we had hoped. We plan to trim that cost back dramatically in our fourth quarter and in 2010.

Corporate EBITDA losses increased as a result of increases in legal and professional fees related to development activities as well as various other ongoing legal proceedings including those related to the MEC bankruptcy.

Now, let's look at the condensed consolidated statements of net loss and earnings for the third quarter. Third quarter operating income of \$2.5 million is down versus last year's \$4.3 million. Operating expenses increased by \$2 million or 2%. The reductions are driven by Arlington real estate tax refund and the Calder insurance recovery. And track revenue reductions were more than offset by increases driven by handle growth in TwinSpires, our permanent slots facility at Fair Grounds, increased marketing spend in video poker, startup costs in Calder Casino and the purse contributions at Churchill Downs racetrack.

SG&A expenses increased by \$1.1 million in the quarter, driven by an increase of \$1 million for outside legal and professional help as previously mentioned. Equity losses and unconsolidated investments improved primarily as a result of better performance of HRTV.

The income tax provision was higher during the third quarter as a result of the recognition of \$2.3 million on income tax expense related to proposed IRS adjustments regarding the treatment of Personal Seat Licenses sold in 2005 for the Kentucky Derby. When these licenses were sold to fund the Churchill Downs racetrack Master Plan renovation, the company deferred the taxable income over the respective term of the licenses.



It is the IRS' position that all of these proceeds are taxable in the year they were received or in 2005. As a result, the net loss from continuing operations for the quarter was \$1.2 million or a loss of \$0.09 per diluted common share.

Now if I could turn your attention to the condensed consolidated balance sheet, I will briefly review a few variances. Accounts receivable decreased \$17.5 million primarily due to the collection of Kentucky Derby and Churchill Downs Racetrack Spring Meet related receivables. Income taxes receivable declined \$16.9 million as a result of year-to-date earnings. Net additions to property, plant and equipment balances are primarily due to the capital spending related to the Calder Casino.

Long-term debt was reclassified to a current liability during the third quarter as the revolving credit facility expires next September. Balances under the revolving credit facility decreased as a result of the payments using cash generated from collections of Kentucky Derby related receivables as well as the operations of our online gaming and online businesses.

Deferred revenue increased significantly during December -- since December as a result of the Derby and other second quarter revenues recognized for the Spring Meet at Churchill Downs.

And before I wrap up here, I'd like to update you on two other items that I am sure you're interested in before we turn it back over to Bob.

The first is related to the \$15 million contingent consideration on the sale of Hoosier Park, which is due in December. We continue to monitor the financial performance of Centaur and understand they are working to restructure their debt. At this time, we have determined that collectibility is not reasonably assured and therefore we have not recognized the amount due in the agreement. We expect to know the outcome of this in the fourth quarter.

The second item is related to the Horse Racing Equity Trust Fund in Illinois, which is funded by a 3% surcharge on the riverboat casinos that meet a certain revenue threshold. In July, the Illinois Racing Board voted to determine the eligibility to receive a distribution under Public Act 94-804 for the 2006 bill.

Arlington Park was allocated \$10.3 million of the track portion excluding interest. We anticipate that a higher amount will be allocated to purses when that decision is made. We expect the percentage allocation for the 2008 bill will be the same. We have intervened in the lawsuits that are holding up the distribution of these monies and given the significant amounts in play, we will continue to aggressively pursue these matters.

That concludes my remarks and I will turn it back over to Bob for your questions. Bob?

---

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

Thanks Bill. We'll be glad to try to answer your questions. Antoine, are there any questions out there?

## QUESTION AND ANSWER

---

**Operator**

(Operator Instructions). Your first question comes from the line of Steve Altebrando with Sidoti & Company. Please proceed with your question.

---

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

Hi guys. How are you?

---

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

Hey Steve. How are you doing?



Oct 29, 2009 / 01:00PM GMT, CHDN - Q3 2009 Churchill Downs Inc. Earnings Conference Call

---

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

I am not sure if there is anything to add here. But can you -- any comments on the Florida tax situation?

---

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

Not really. We don't have any unique insight to that. As you know and just for everybody else's benefit, there is a proposal -- proposed compact, gaming compact that would exist between the Seminole Indian tribe, the State of Florida and the various other pari-mutuel operators that would have a beneficial effect to us as currently contemplated -- underlying that -- is currently contemplated reducing the tax rate from 50% to 35%. But this is an issue much bigger than just us and will get resolved between the legislature, the governor and the Seminoles hopefully soon.

---

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

Okay. And then any thoughts on, I believe there was a Republican proposal for slots in Kentucky, but the tax rate was somewhat onerous?

---

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

Republican senators in the State Senate have proposed two amendments in the last week or so. One and I know this will sound a little unusual, but one is an amendment that would require another amendment in order to have gaming. So it's an amendment that says you have to have another amendment to have gaming. That one has got us befuddled. And the second one was a proposed gaming amendment, but I think it's completely unworkable and I doubt it gets any traction.

---

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

Okay. And then just lastly, on the margins in the ADW segment and I know I spoke to Bill about this a lot. But they just fluctuate pretty greatly. Is it -- what type of EBITDA margin business do you guys generally view this as?

---

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

We don't provide forward-looking guidance on that type of thing Steve. But as we discussed, there are -- there is a lot of seasonality in the ADW space because the tracks when they run live, when they don't run live, and so looking at it from quarter-to-quarter is a tough comparison. The other thing that we've got going on in that segment, the equity losses and unconsolidated affiliates as you know is comprised of two things. One is HRTV, the other is TrackNet Media. There is couple of small things, but those -- that's the bulk of what's in that line item. If you look at that, we lost \$568,000 in the quarter and year-to-date I think was only like \$70,000 more than that. So the bulk of that loss happens in the third quarter and that's really the timing of kind of HRTV strength. We don't have as many revenues in the third quarter because we don't have the exclusive television rights to some of the big TrackNet content.

---

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

Okay. Thanks guys.

---

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

Thank you.

---

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

Antoine, any other questions?

Oct 29, 2009 / 01:00PM GMT, CHDN - Q3 2009 Churchill Downs Inc. Earnings Conference Call

---

**Operator**

Your next question comes from the line of Amit Kapoor with Gabelli & Company. Please proceed with your question.

---

**Amit Kapoor - Gabelli & Company - Analyst**

Hi guys. How are you? Quick question. I guess two questions here. Given the kind of traction you're getting at -- with the -- in the ADW business, in your mind, are there opportunities out there to further augment this growth with an acquisition and that's my first question. And the second one I actually discussed this with Bill, but just -- there are a number of distressed assets out there in the industry that are available that will require a lot of work. But probably in this next couple of decades, this is probably the best time to go out and see if there is anything that you can -- specifically racetracks that you can acquire at a favorable price. Any thoughts on that would be appreciated. Thank you.

---

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

Amit, this is Bob. So you've asked that question that you know in advance we're not going to answer, which is to discuss any deals that we might be contemplating if any. So I can't really comment on any specifics other than to say that we've got a good development group and we pay attention to what's going on and we pretty much look at every opportunity that you might think is out there. And if we ever have anything to announce on any of those, we will do that in the appropriate way at the appropriate time. I apologize for dodging your question, but you know I can't address that one.

---

**Amit Kapoor - Gabelli & Company - Analyst**

I guess I am not -- that's perfectly fine. I am just trying to figure out if the way you think about growth, how -- in the ADW business is that something that organic growth is so robust right now that we do not have to look at anything outside externally and that should -- is that about right, is that how you guys think about it internally?

---

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

We have and will continue to consider both options.

---

**Amit Kapoor - Gabelli & Company - Analyst**

Okay, great. Thank you.

---

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

Thank you.

---

**Operator**

Your next question comes from the line of Ryan Worst with Brean Murray. Please proceed with your question.

---

**Ryan Worst - Brean Murray - Analyst**

Thanks. Good morning guys.

---

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

Good morning.



---

**Ryan Worst - Brean Murray - Analyst**

Just a couple of questions. Bob, on Calder, you spoke a little bit about the disruption there. Given the problems you had last year before the meet started or earlier or in the second quarter, I would have expected a bigger bounce back there. So could you kind of provide any kind of color on the disruption and the impact there either on wagering at the track or EBITDA?

---

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

Hey Ryan, this is Bill. What I can provide is I guess first of all, dispute with the horsemen ended July 7 of last year.

---

**Ryan Worst - Brean Murray - Analyst**

Right.

---

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

We didn't -- so the base line while it definitely was impacted from that disruption, it wasn't -- the signal wasn't turned off in the third quarter. So you got to keep that as a comparison point. And the second thing is in South Florida that area seems to be impacted more heavily from the economic downturn. We're seeing at our competitors' locations as well as ours. So I would say that the South Florida is probably impacted a little bit more than most of the other locations that we look at from the way of where the wagers take place. So those are the two things in mind. What I would say is the out-of-state export has bounced back pretty well and we do see that we're struggling on-track and whole card and it's a qualitative discussion, it's hard to quantify exactly how much that's driven by disruption of the casino, but clearly the parking lot, the access to the track and everything has been disrupted. So it's hard to give you exact answer, but I hope that -- hopefully that will help.

---

**Ryan Worst - Brean Murray - Analyst**

Yes, it will help.

---

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

But Ryan, there is a good news, bad news to this one. So the bad news is that we pretty much tore up the main entrance to the track, most of the parking lot space to build the casino. That's the bad news. The good news is once we get the casino done, it is incredibly convenient to customers coming in off the highways and off the surface roads to get access to the casino. So in the short run, it's hurting us a bit in terms of getting people to the racetrack. Once the construction, I think the casino is incredibly well positioned and you will have easy access to the racetrack as well.

---

**Ryan Worst - Brean Murray - Analyst**

Right. But that's why -- go ahead.

---

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

The other thing that you can look at in the 10-Q, you will see that the handle was down 5% while the revenue was down 8% -- pari-mutuel revenue. So that speaks to the mix of -- the on track business is struggling because of the -- which is a higher margin for yielding -- revenue yielding segment of the business than the out-of-state.

---

**Ryan Worst - Brean Murray - Analyst**

Right.



---

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

It's the revenue being down more than the handle.

---

**Ryan Worst - Brean Murray - Analyst**

Okay. How much is remaining, do you have on the spend, for the casino at Calder?

---

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

Today we spent 20 -- roughly \$22 million and the third quarter we will spend about another \$35 million, which will put about the remaining \$28 million into 2010.

---

**Ryan Worst - Brean Murray - Analyst**

Okay. And then another follow-up on the question about your kind of strategy going forward on acquisitions and obviously I am not looking for a specific assets, but maybe if you could prioritize where you want to be in the future and talk about ways to get there on the development front between the online wagering, racetracks obviously there is a lot of Magna assets up for sale and then also gaming if you're interested in that as well?

---

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

Yes, another tough question. So a year-and-a-half or so ago when we introduced the segments of racing, online and gaming, we said that strategically we wanted to build the future company around those core businesses. And either organically or via acquisition, we've done that to-date and we will continue to do that. So the simple answer to your question is we'll look at all three areas both in terms of making investments to produce organic growth, which we've been doing in racing lately, as well as investments via the acquisition route and beyond that I just don't really have anything else that I want to add.

---

**Ryan Worst - Brean Murray - Analyst**

Okay. That's helpful. And then also concerning Arlington Park, there was a -- some old legislation that I think results in a benefit for you guys relating to the tenth license that could come online. Could you talk about that a little bit and what exactly that is and how that impacts the profitability of Arlington Park?

---

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

Yes. Ryan, this is Bill. I'll say first of all we talked a little bit about the horse racing equity fund bill and that's what's driving some of the legal fees as we have started to intervene in some of the lawsuits that's holding up that distribution. There were actually two bills, one from 2006 and one from 2008. The numbers that we talked about are only the 2006 bill, not the 2008 bill.

In addition to that, there is the tenth license, which comes into play. I think the -- they just started breaking ground in the new riverboat that was supposed to be up and running I think in two years. A portion of the taxes that basically are coming from that riverboat are being already paid into effectively another type of horse racing equity trust fund. We have -- it's 15% of the adjusted revenue of that boat. We haven't really provided any forward-looking guidance nor am I really prepared to talk about that right now so.

---

**Ryan Worst - Brean Murray - Analyst**

All right, okay. But I mean that could be a pretty significant benefit I would think?



Oct 29, 2009 / 01:00PM GMT, CHDN - Q3 2009 Churchill Downs Inc. Earnings Conference Call

---

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

Yes, it's not immaterial, all I can say.

---

**Ryan Worst - Brean Murray - Analyst**

Yes. And then any thought to you using the balance sheet to buyback stock at these levels?

---

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

There are no plans to do that as things currently exist.

---

**Ryan Worst - Brean Murray - Analyst**

Okay. Thanks.

---

**Operator**

There are no further questions at this time.

---

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

Okay. Antoine, thank you very much. For those of you that joined us, thanks very much. We won't be together like this again until next year, so have a happy holiday season and we'll see you in a few months. Bye, bye.

---

**Operator**

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

## DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2009 Thomson Reuters. All Rights Reserved.

