MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, welcome to Churchill Downs Incorporated First Quarter 2010 results. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session; instructions will follow at that time. [Operator Instructions]

And as a reminder, this conference call is being recorded. I would now like to turn the conference over to Liz Harris, you may begin.

Liz Harris, Vice President, Communications

Good morning, and welcome to the Churchill Downs Incorporated conference call to review the company's results for the first quarter 2010. The results were released yesterday afternoon in a news release that has been covered by the financial media.

A copy of this release announcing results, as well as any other financial and statistical information about the period to be presented in this conference call, including any information required by Regulation G, is available at the section of company's website titled "Investors" located at the churchilldownsincorporated.com website.

Let me also note that a news release was issued advising of the accessibility of this conference call on a listen-only basis via phone and over the Internet.

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

The actual performance of the company may differ materially from what is projected in such forward-looking statements. Investors should refer to statements included in reports filed by the company with the Securities and Exchange Commission for discussion of additional information concerning factors that could cause our actual results of operation to differ materially from the forward-looking statements made in this call.

The information being provided today is as of this date only and the Churchill Downs Incorporated expressly disclaims any obligation to release publicly any updates or revisions to these forward-looking statements to reflect any changes in expectations. Members of our executive team are here and will be available to answer questions after some formal remarks.

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

Robert L. Evans, President and Chief Executive Officer

Thanks, Liz. Good morning, everyone. Thanks for joining us. I'll make a few general comments about Q1 and then turn it over to our CFO Bill Mudd to fill you in on the details. After that, I'll be back with some thoughts on last weekend's Kentucky Oaks and Kentucky Derby, and will then be happy to try and answer your questions.

Overall, we're pleased, but not thrilled with our Q1 results. Q1 EBITDA was down $4.5 million from 2009, primarily as a result of three developments. First, we received $2.1 million in previously escrowed source market fee revenues, net of purse expense, at Arlington Park in Q1 2009 last year. That did not reoccur in Q1 of this year. Second, this year we incurred $1.1 million in pre-opening expenses related to the Calder Casino in Miami Gardens, Florida. And third, we incurred

$1.1 million of legal and other fees related to the pending acquisition of Youbet.com. So, there's $4.3 million of $4.5 million year-over-year change in Q1 EBITDA.

As for the core business, Racing Operations' EBITDA declined $2.1 million from Q1 2009, equal to the non-recurrence of the Arlington Park source market fees in Q1 of last year. Cost controls across all tracks offset the decline in pari-mutuel revenue at Fair Grounds, our only live race meet during the quarter.

EBITDA from our slot and video poker gaming operations in Louisiana was essentially flat with 2009. And our online business revenue was up 8% in Q1, on 8% growth in TwinSpires.com handle, despite a 10% decline in U.S. industry thoroughbred handle according to Equibase. Our online EBITDA increased 7%.

Our Q1 results illustrate how important our diversification efforts over the last three years have been. Since Q1 2006, U.S. thoroughbred handle is off by a little over 22%. If we were still as dependent on the U.S. thoroughbred industry as we were in Q1 2006, our results would likely have mirrored the industry's decline. Instead, our Q1 revenue was more than double that of Q1 2006, and at $75.1 million, a record level of revenues from continuing operations in Q1.

Q1 revenue growth is due to growth in our gaming and online businesses, which contributed almost 60% of total revenue in Q1, and were the two business units that contributed positively to EBITDA in the first quarter.

While on the topics of our gaming and online businesses, let's spend just a minute on the Calder Casino and on the Youbet.com acquisition. The Calder Casino opened on January 22. We've seen growth in Gross Gaming Revenue, or GGR each month, on a daily average basis since the opening, and we continue to believe that the facility will operate between $80 million and $100 million GGR, on an ongoing annualized basis.

EBITDA performance of the Calder Casino will be considerably enhanced by legislation enacted in Florida on April 28, 2010 that will reduce the tax rate on our slot operations by 15 percentage points effective this July 1; 10 percentage points of this reduction will accrue to us, and the remaining 5 percentage points will go to the Calder Race Course purse account. In addition, the same legislation reduces the Calder Casino's annual license fee by $500,000 this July 1, and by another $500,000 on July 1, 2011.

Finally, a word on the Youbet.com acquisition: On January 25, the U.S Department of Justice issued a formal request to both CDI and Youbet for additional information, a so-called second request. It took us several months to comply with this request and we submitted the requested materials on April 19. The DOJ is now in the process of reviewing that information. We continue to believe that we will be able to close this transaction in the second quarter.

Let me now turn this over to Bill.

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

Thank you, Bob, and good morning everyone. I will review the information set forth in the tables of the press release that can be found under the Investor Section that Liz 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 on the Kentucky Oaks and Kentucky Derby before we open the call to questions.

The discontinued operation section of our financial statements and tables contain adjustments related to Hollywood Park and Ellis Park. My comments will focus only on our performance from continuing operations.

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

Total racing operations' net revenues from external customers declined 21% or $8.3 million in the first quarter of 2010. Our Arlington Park property saw external customer revenues decline $7 million for the quarter. The majority of this reduction is driven by the receipt of $4.3 million of source market fees recognized the first quarter of 2009. In addition, the Illinois Racing Board designates a host track when there is no live racing in the state. Arlington received 11 fewer host days during the quarter, which was a major contributor to the remaining $2.7 million revenue decline. As a reminder, they do not conduct live racing during the first quarter.

Our Fair Grounds racing operation revenues from external customers declined 12% to $16.5 million. A big driver of this decline is driven by a 10% reduction in the number of race days conducted. According to Equibase, wages on total U.S. thoroughbred racing declined 10% in the first quarter. So, we did slightly worse than the industry, as abnormal weather conditions during the light meet resulted in 53 turf cancellations, compared to 23 in the prior year.

Our online business increased net revenues from external customers by 8% to $18 million during the quarter. We realized increased wagering in approximately two-thirds of the states in which we operate. This channel continues to grow, despite the contracting industry.

Our gaming business grew net revenues from external customers by $8.5 million or 47% on the introduction of our new Calder Casino in Miami Gardens, Florida. This new facility had a soft opening on January 22 with 1,245 machines and generated $9 million of net revenues from external customers during the quarter. This was the primary driver of revenue growth in the segment.

After a very difficult start in January for our Fair Grounds slots and video poker facilities in Louisiana, they recovered nicely during the months of February and March. Our Fair Grounds slot facility registered a 2% decline in net external customer revenues, while our video poker business realized a 5% decline in the period.

Now, let's look at the EBITDA performance by segment at the bottom of the page. Our racing operations EBITDA performance was $2.1 million, unfavorable to the same period of the prior year. This is primarily attributable to the recognition of $2.1 million in source market fees, net of purses, recognized at Arlington Park during the first quarter of 2009. Declines in profitability of our Fair Grounds meet, driven by lower pari-mutuel wagering, were offset by better-cost performance in our other racing locations.

Our online business EBITDA improved by $0.3 million or 7% year-over-year, driven by an increase in handle. Our gaming business EBITDA decreased by $1.8 million. This includes a negative EBITDA for the quarter at our Calder Casino of $1.5 million, driven by $1.1 million of pre-opening expenses and $0.7 million of allocated corporate overhead. Otherwise EBITDA was slightly positive for the quarter.

Our Fair Grounds slot facility was able to manage a $0.2 million increase in EBITDA, despite the slight revenue decline, while our video poker operations were down $0.4 million.

Other investments EBITDA decreased primarily due to expenses associated with the launch of Churchill Downs Entertainment, which will present the HullabaLOU Music Festival in the third quarter of this year.

Total EBITDA was a loss of $5.5 million for the quarter, a reduction of $4.5 million versus the prior year. The decline is primarily the result of $2.1 million of non-recurring source market fees, net of purses, $1.1 million – recognized in the prior year, 1.1 million of pre-opening expenses for our Calder Casino and $1.1 million of expenses related to our pending acquisition of Youbet.com.

Now, if you would, please turn to the table that is titled "Condensed Consolidated Statements of Net Loss." Total net revenues from continuing operations increased by 2%, or $1.3 million, as gains from our gaming and online businesses more than offset declines in racing operations and source market fees we received in 2009.

Operating expenses grew faster than revenues, primarily due to the opening of the Calder Casino, and also include a $2.6 million increase in depreciation and amortization related to that property. Selling, general and administrative expenses increased by $0.9 million versus the same quarter of the prior year. While we continued to be vigilant in controlling costs across the company, we were not able to offset the $1.1 million in legal expenses associated with our pending merger with Youbet.com.

Interest expense increased primarily as a result of spending related to the build-out of our Calder Casino. The income tax benefit increased year-over-year, as a result of the reversal of previously accrued expenses related to the recognition of personal seat license revenue for tax purposes. Discussions with the IRS during the quarter, as well as our participation in the fast track mediation process, resulted in a position that was $1.6 million better than what we had expected from a continuing operations standpoint.

Our fully diluted loss per share from continuing operations for the quarter was a loss of $0.62 compared to a loss of $0.37 in the prior year.

And the last schedule, if you turn your attention to the schedule titled "Condensed Consolidated Balance Sheets"; I'll briefly review some changes.

Accounts receivable decreased $16.8 million from year-end, as a result of the collection of Derby-related receivables. The increase in income taxes receivable at $7.8 million reflects the benefit of net losses generated during the first quarter. Other current assets increased $9 million, due to the prepayments related to the Kentucky Derby and HullabaLOU, as well as those related to our annual insurance premiums.

Net property and equipment increased $5.3 million as we completed the build-out of the Calder Casino and installed permanent lighting at Churchill Downs Racetrack. Deferred revenue increased $19.2 million since December, as a result of additional first quarter billings of Derby-related and live racing meet memberships that will be recognized as revenues in subsequent quarters.

Long-term debt increased $9.2 million, as we incurred borrowings for purposes of completing the build-out of the Calder Casino and the installation of permanent lights at Churchill Downs.

Before closing, I thought I would add a few comments on the status of the Illinois Horse Racing Equity Trust Fund and related lawsuits, generally referred to as the Molaro Bill. With respect to the ongoing lawsuits filed by the casinos to challenge the 2008 Molaro Bill, the state court in the lawsuit recently ruled that the funds associated with that bill can be dispersed to the Illinois racetracks, including Arlington Park. We anticipate that Arlington Park will receive $11.6 million, of which 6.8 million will be added to purses and $4.8 million will be used by Arlington Park. The appellate court in the related federal lawsuits also filed by the casinos has issued an order that racetracks must escrow these funds pending the outcome of the federal lawsuit. We expect to receive these funds over the next couple of weeks. The appellate court should make a decision on the escrowed funds when it rules on the merits of the case. Oral arguments were held in late February and we are waiting on the court's decision.

With that, I'll turn it back over to Bob for some final thoughts on the Kentucky Derby and Kentucky Oaks.

Robert L. Evans, President and Chief Executive Officer

Thanks, Bill. Last weekend was the 136th running of the Kentucky Oaks and the Kentucky Derby. Despite continuing high unemployment and the continuing decline in U.S. thoroughbred handle, which through April was down 8.4% according to Equibase, we had a terrific weekend.

The Oaks and Derby week party now gets started on Thursday night with a new event, "The Taste of Derby." "Taste" featured the culinary specialties of 14 world-class chefs from around the United States, representing the cities that are the homes of the Kentucky Derby prep races. The inaugural sold-out event produced 860 attendees at ticket prices ranging from $250 to $350. Benefitting the Dare to Care Food Bank and the World Food Programme, "Taste" raised over $82,000 for hunger relief. We think "Taste" is something we can grow in the years ahead. Just by point of reference, the 2010 Taste of the NFL event, which we modeled Taste of Derby after, had 2,400 attendees at ticket prices roughly double the ticket prices we charged this year.

The party continued on Friday with the Kentucky Oaks. Now positioned as an event that puts, as its tagline says, "Ladies First", the Oaks benefits breast cancer awareness and research with its tie-in with the Susan G. Komen for the Cure Foundation and with Kentucky's First Lady Jane Beshear's Horses and Hope initiative. Oaks attendance set an all-time record of 116,046, up 11% over 2009. Oaks Day's full card all sources handle reached 20% to 36 million, also an all-time record. The Oaks generated an $116,046 contribution, and that's $1 per Oaks attendee, to the Susan G. Komen Foundation and $30,000 to the Horses and Hope program, bringing our 2-year total contributions to both programs over $275,000.

The party concluded on Saturday with the Kentucky Derby. Saturday's weather forecast had, for several days, been for severe weather and the forecasters were unfortunately right. Nobody at Churchill Downs can remember such a period of sustained rainfall on Derby Day, and our expectations for the day were becoming as dreary as the weather. But the fans turned out. They came later than normal, but they came. And in the end, attendance was 155,804, the 6th highest attendance ever. All sources handle was $163 million on the Kentucky Derby day card, up 4% over 2009. Sponsorship and merchandise sales were also up, and viewership of the NBC broadcast of the race, 16.5 million people, was the highest in 21 years. Boiled down to a single, still preliminary number, we expect Kentucky Derby week EBITDA to increase $3 or more million dollars this year, over the comparable 2009 number.

We will now be happy to try to answer your questions; Latoya, if you will please check and see if we have any questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We have a question from Ryan Worst of Brean Murray. Your line is open.

<Q – Ryan Worst>: Thank you; good morning, guys.

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

<Q – Ryan Worst>: Just a few questions. One, Bob do you have any estimate on the impact of the weather during the Kentucky Derby in terms of wagering per customer at the track, or average spend per visitor at the track?

<A – Robert Evans>: No, not really. We have a hard time separating out what's weather-related versus other factors, so I can't help you there.

<Q – Ryan Worst>: Nothing with fans coming later, so spending less at the track? I noticed that you had a lot of scratched races per day – during the day, and does that impact wagering negatively?

<A – Robert Evans>: That does. On Derby day, early in the day, we had a couple of races that came off the turf course, which resulted in a few scratches. That hurts us, but you have to argue – to do this analysis, you have to argue the money that would have been bet on those races is not bet on later races. We have no way of knowing that. So, bad weather doesn't help, but it's hard to quantify exactly how much it hurts us.

<Q – Ryan Worst>: Okay, and then moving to Calder. Would you anticipate becoming profitable before the change in the tax rate?

<A – Robert Evans>: We're profitable now, at an EBITDA line.

<Q – Ryan Worst>: Okay.

<A – Robert Evans>: We have been since, I believe since – March.

<Q – Ryan Worst>: Okay. That's good. And then, could you talk about the status of any legislation in Illinois? And, then I have one final question.

<A – Robert Evans>: Bill Carstanjen's here. Bill, do you want to comment on the politics of Illinois?

<A – Bill Carstanjen>: Sure.

<A – Robert Evans>: Having lived there, it's indecipherable to me, so I'm just going to pass it to somebody else.

<A – Bill Carstanjen>: There is a lot of activity in Illinois right now, and of course we're hopeful, but it's really difficult to make any predictions. There are some positive things we're seeing. There's some positive activity we're seeing, but we'll just have to wait and see how things turn out. It's very hard to read the tea leaves.

<Q – Ryan Worst>: Yeah, I'm not really asking for a prediction, but what – any color on some of the proposals that are out there or that the legislators are considering? For people who are not as close to the situation?

<A – Bill Carstanjen>: Premature. Things change in committees, and it's really premature. We've certainly been working along the lines of a couple of different proposals, but it really would be inappropriate right now to call those out and discuss those on this conference call because it's up to the legislature to modify those as they see fit.

<A – Robert Evans>: Yes, Ryan. I think the one issue that we do have some influence over is the level of the cooperation between the different breeds, harness and thoroughbred, the different tracks, and the horseman that represent those breeds. Now I think there's – at this juncture, a much higher level of cooperation and common interest among all those different parties on, I'll call it the horse side of the issue, than there's been in the past. So, I'm optimistic, but politics is politics. I have no idea how this will actually turn out.

<Q – Ryan Worst>: All right. Okay, and then could you talk about the cost of the infrastructure that you've put in place for the entertainment segment and kind of what your expectations there are?

<A – Robert Evans>: No, we haven't released any of that information and won't until we get to the HullabaLOU Event on July 23, 24, 25.

<Q – Ryan Worst>: Okay. Thanks.

<A – Robert Evans>: Thank you; Latoya, anyone else?

Operator: Yes. Our next question is from Steve Altebrando of Sidoti & Company.

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

<A – Robert Evans>: I'm fine, thanks. Good morning.

<Q – Steve Altebrando>: Good morning. Can you breakdown Calder EBITDA for the quarter?

<A – William Mudd>: Yes. In my comments, I had mentioned that EBITDA for the gaming segment was down $1.8 million. The Calder EBITDA for the quarter was down $1.5 million, negative $1.5 million. That negative $1.5 million consisted of $1.1 million of pre-opening costs. Remember, the facility didn't open until late January, so we really ramped up the head count as we got all the people trained and knew their job functions, and made sure we had all the controls and processes in place so they would run the facility efficiently.

So, we had about $1.1 million of pre-opening costs and then there was $700,000 of corporate overhead, that was allocated – the way that we do our overhead allocations for the corporate functions which basically is all the HR, all the legal, all the IT support, all finance support, or big chunk of finance support is, it's allocated to each of the segments based on the revenues. So, with the revenue they received, they picked up $700,000 worth of allocated corporate overhead.

<Q – Steve Altebrando>: Okay. That's helpful, thank you. And, the tax reduction that goes into effect July 1 is that correct?

<A – William Mudd>: That's correct.

<Q – Steve Altebrando>: Okay. And then can you just give a little bit of color, I mean last time you had mentioned, when you opened it, you hadn't really ramped up marketing, how you're attacking that currently?

<A – Bill Carstanjen>: Sure. This is Bill Carstanjen. Critical to our marketing plans is to build a database and so our team is focused heavily on that, to add players to our database for the direct market, so that's taken a couple – that's taken a couple of months to really ramp up, so at this point Bill, can we disclose a number like that?

<A – William Mudd>: Yes. It will be fine.

<A – Bill Carstanjen>: At this point we are approaching about 90,000 players in our database and have begun marketing in earnest to them, so each month since we've been open, we've seen nice improvement and we're hopeful we can continue that going forward.

<Q – Steve Altebrando>: Okay. Any color on kind of the competitive environment down there since you guys opened?

<A – Robert Evans>: Yes, Steve let me take that one, in the press release, when we put out the accompanying first quarter results, we said there are the five pari-mutuel slot operators, so those are the ones we consider our competition. We're now the second largest in the market in terms of net gaming revenue, we have about 20% of that market and we have about 22% of the machine inventory. So we feel like we've been able to gain share pretty quickly here since we opened in late January. And bottom line is I think we've got a better mousetrap there with the facility we built and I think if we just stay patient and do a good job of marketing, we will continue to build the revenue base.

<Q – Steve Altebrando>: Okay. Thank you. And then the ADW segment, I mean growth was pretty notably slower though the base is getting larger, so it's now sustainable to what you did last year. But is there any competitive issue to that or are you seeing anyone being, maybe, more aggressive with promotions?

<A – Robert Evans>: Not really. I think it's been pretty much as competitive as it's been. In the first quarter total thoroughbred handle was down 10%, we were up 8% on TwinSpires.com. I haven't seen the numbers yet from the Oregon hub. But I'm reasonably confident that we likely gained share of the channel – the ADW channel in Q1. So I feel pretty good about the business. And if you look at the results so far in April and early May, we feel pretty good about those two months as well.

<Q – Steve Altebrando>: Okay; and then just a couple more, sorry guys...

<A – William Mudd>: One other thing I would highlight, which we're glad about, Steve, is that content; everyone has all content now. And in the first quarter of last year TVG did not have the TrackNet content and they have it this year so that – that is a platform that we weren't competing against last year, but that will all – that's all flushed out now for the Kentucky Derby. That's when everything kind of picks up.

<Q – Steve Altebrando>: Okay. And then just a last question to the depreciation, is that a good run rate excluding the Youbet acquisition?

<A – William Mudd>: That will actually drop a little bit come July 1. So the second quarter will be – it'll be a good run rate for second quarter. It'll drop off little bit in the second half of this year, but otherwise yeah, it's not too far off.

<Q – Steve Altebrando>: Was there something that caused the one-time spike?

<A – William Mudd>: Yeah the license – the annual license that in Florida, because we didn't open the casino until late January, that gets amortized over the period of January to July 1 rather than over a full year. So, there's acceleration if you will, a full year's worth of that license fee. Notice that license fee will, as Bob commented, will also some down starting July 1.

<Q – Steve Altebrando>: Okay. And then the last one, is the one-time in legal fees from Youbet, is that in the corporate – in the EBITDA breakdown is that allocated to corporate?

<A – William Mudd>: It's in corporate, but then it gets allocated out in the way of management fees.

<Q – Steve Altebrando>: Okay. But just in terms of the ADW EBITDA you're generating, is kind of a – is $4 million kind of the good number to use that excludes the one-time fees for the quarter?

<A – William Mudd>: Well, one-time fees are about 200,000 of that $1.1 is sitting in the online segment. Some of that $1.1 we spent on legal fees for the Youbet acquisition about $200,000 of that is in the online segment.

<Q – Steve Altebrando>: Okay. Okay, that's it guys. Thank you.

<A – William Mudd>: Thanks
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<A – Robert Evans>: Thanks.

Operator: Thank you. Our next question is from Jeff Thomison of Hilliard Lyons. Your line is open.

<Q – Jeffrey Thomison>: Thank you, and good morning. Bill, just a clarification please, the long-term debt figure of $80.3 million, can you just kind of go over what has been added, what that includes and what might be to come? I'm trying to look at either a period-end or year-end debt number for you guys when you're done with your CapEx projects?

<A – William Mudd>: Let me try to rephrase the question for you. So your question is, where we expect the debt to be towards year-end. Is that correct?

<Q – Jeffrey Thomison>: That'd be great.

<A – William Mudd>: Okay. So, we don't provide forward-looking guidance on that type of number. Here's what I can tell you:

Through the end of March, we spent in the first quarter about $12 million in the Calder casino. In the previous call we said we had about $20 million left to go. So we've got somewhere between $7, $8 million left to work its way out on the Calder casino. So that – we do have the $24 million which we will pay for the Arlington land May 15th, and then beyond that we've got some other smaller projects to spend capital on throughout the year. So you may take that and you take the amount of money that we'll spend on Youbet acquisition which will be somewhere in the cash side around $45 million depending on what the ultimate stock price is at that time, and then you can kind of figure out with our free cash flows with the Derby and other operations where you think will come in.

<Q – Jeffrey Thomison>: So your lighting is all reflected in the $80.3? Any money you borrowed for that?

<A – William Mudd>: Yes, all the lighting was completed in the first quarter.

<Q – Jeffrey Thomison>: Okay. Now, that's exactly what I needed. Thanks.

<A – William Mudd>: Thank you.

Operator: Thank you. Not showing any further questions at this time.

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

Okay, thanks for that, Latoya. Thanks everyone for joining us. I'll talk to you again after the Q2. Have a great week.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Good day.