



BREEDERS' CUP LIMITED

2006 ANNUAL REPORT





July 2, 2007

Dear Breeders' Cup Nominators,



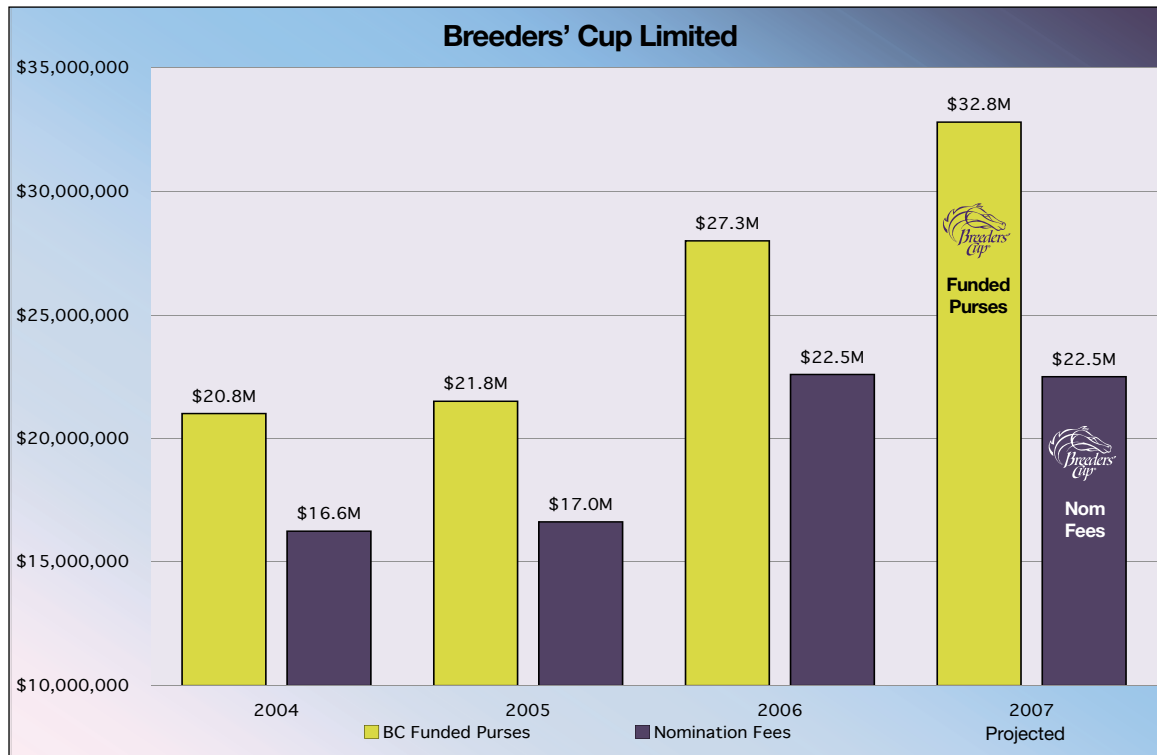
The last 18 months have been a time of unprecedented change for Breeders' Cup Limited. Under the leadership of the 13-member Board of Directors, the organization has installed new management, streamlined its staff and ended its joint operating agreement with the NTRA.

These changes have allowed us to better focus our resources on the core priorities of providing increased benefits to nominators in the form of higher Breeders' Cup funded purses, growing the Breeders' Cup as a commercial property and developing programs to attract new fans and potential owners to the sport.

In order to keep you fully apprised of the organization's activities, we have included for the first time a detailed list of the new programs and other highlights from January 2006 through the present.

Of particular note in this list is the dramatic increase in Breeders' Cup funded purses and awards which have grown by more than \$12 million – a 58 percent increase – since 2004. As indicated in the chart below, with the 2007 increases, total Breeders' Cup funded purses and awards are now projected to exceed total nomination fees by over \$10.3 million – the largest positive variance in the organization's history.

Purses versus Nomination Fees



Factoring in these purse increases, this year's expanded two-day Breeders' Cup at Monmouth Park will have total purses and awards exceeding \$24.65 million – making it the richest sporting event contested in the world.

The other item on the Highlights list which deserves special attention is the study completed in 2006 that shows a Breeders' Cup nominated yearling averages seven times the price of a non-nominated foal at sale. We believe that this is the market's way of valuing the quality and potential earnings of Breeders' Cup nominated horses.

2006 was a strong financial year for the organization with approximately \$7.3 million in operating income which consisted of \$3.7 million from operations (driven primarily by the record financial results from the 23rd Breeders' Cup at Churchill Downs) and \$3.6 million from investment income. Presented with this report are the 2006 Breeders' Cup Limited consolidated financial statements for your review. Based on my knowledge, these financial statements present fairly, in all material respects, the financial position, and the changes in net assets and cash flows of Breeders' Cup Limited as of and for the year ended December 31, 2006.

We hope this expanded presentation of the Breeders' Cup programs and activities is helpful and welcome any comments or questions as to how we can continue to improve our communications. We greatly appreciate the support of all of our nominators and recognize that you remain the backbone of this organization.

Sincerely,



Gregory C. Avioli
President and CEO

JANUARY 2006 – JUNE 2007 HIGHLIGHTS

Purse Increases/Expansion of Breeders' Cup Championships to Two Days

In April 2006, the Board agreed to increase Breeders' Cup World Championships purses from \$14 million to \$20 million resulting in the following purse levels beginning with the 2006 Championships:

Breeders' Cup Classic – Powered by Dodge - \$5 million
John Deere Breeders' Cup Turf - \$3 million
NetJets Breeders' Cup Mile - \$2 million
Emirates Airline Breeders' Cup Distaff - \$2 million
Emirates Airline Breeders' Cup Filly and Mare Turf - \$2 million
TVG Breeders' Cup Sprint - \$2 million
Grey Goose Breeders' Cup Juvenile Fillies - \$2 million
Bessemer Trust Breeders' Cup Juvenile - \$2 million

In January of this year, the Board approved \$3.75 million in additional new purses as part of the expansion of the Breeders' Cup to a two-day format and the addition of three new \$1 million Breeders' Cup Championship races: Breeders' Cup Dirt Mile (three-year-olds and upward; one mile), Breeders' Cup Juvenile Turf (two-year-olds; one mile) and Breeders' Cup Filly and Mare Sprint (three-year-old fillies and mares and upward; 7 furlongs – Note: due to track configuration, the Filly & Mare Sprint will be run at 6 furlongs and the Dirt Mile will be run at one mile and 70 yds. in 2007).

The Board also authorized three new \$250,000 Breeders' Cup funded stakes for the Friday Championships card: Epitome Breeders' Cup Stakes (two-year-old fillies; one mile on turf), Favorite Trick Breeders' Cup Stakes (two-year-olds; 6 furlongs) and Inside Information Breeders' Cup Stakes (three-year-old fillies; one mile and one-sixteenth).

Total purses for this year's two-day Championships event will exceed \$24.65 million.

2006 Record Breeders' Cup World Championships Revenues

The 2006 Breeders' Cup World Championships at Churchill Downs produced record all-sources handle of \$140,332,198, a 13.1 percent increase in overall handle from the 2005 event at Belmont Park. Coupled with the on-track attendance of 75,132, the Championships generated \$22.9 million in total revenues for Breeders' Cup, compared to \$17.6 million in 2005.

Breeders' Cup Challenge Series

In October, the Board approved the creation of the Breeders' Cup Challenge, a series of 24 qualifying races for the Breeders' Cup World Championships that provides a 10-week period of heightened national promotion leading into the Championships. This new series serves as a "playoff" system featuring an easily understandable format for general sports fans: "Win and You're In." The winning horse of each of the 24 qualifying races gains an automatic starting position into a corresponding divisional race of the Breeders' Cup. Similar automatic

qualifying formats have proven popular with fans of other sports, including the NCAA Men's Basketball Tournament.

2007 Breeders' Cup Challenge host sites include Saratoga (July 28), Arlington Park (Aug. 11), Del Mar (Aug. 19), Belmont Park (Sept. 30), Keeneland (Oct. 6), and Oak Tree at Santa Anita (Oct. 7). ESPN/ABC will televise all 24 Challenge races in six live programs throughout the summer and early fall.

Hong Kong Jockey Club Partnership

In April 2007, the Breeders' Cup and Hong Kong Jockey Club entered into a marketing partnership under which fans in Hong Kong will be able to wager on the Breeders' Cup World Championships races this year for the first time. With an average of more than \$100 million wagered each race day in Hong Kong (including handle generated from more than 1.5 million registered online bettors), the Hong Kong market has strong potential to generate significant simulcast revenue for the Breeders' Cup.

Breeders' Cup Stakes Program

The Breeders' Cup Stakes Program provides Breeders' Cup nominated horses the opportunity to earn additional purse money throughout the year at racetracks across North America. In 2007, Breeders' Cup Stakes races include 137 races at 41 tracks in the United States and Canada. Only Breeders' Cup nominated horses are eligible to run for the additional \$7,525,000 in Breeders' Cup funds awarded on these races in 2007.

Television

In 2006, Breeders' Cup began its eight-year partnership with ESPN, which provided an unprecedented seven hours of live coverage of the Championships. ESPN used the full array of its media-platforms to promote its coverage including SportsCenter, Pardon the Interruption, Thursday Night College Football, espn.com, ESPN International and ESPN Deportes. Breeders' Cup promotional programming and live coverage between Wednesday and Saturday of Championships week reached a total of 19,900,000 viewers, which helped drive the record \$140 million in total wagering on Championships day.

Marketing/Advertising

In the spring of 2007, Breeders' Cup introduced a new brand campaign and the new tagline, "Where Champions Are Crowned." The campaign, which will include advertising for both the Breeders' Cup Challenge Series and the Breeders' Cup World Championships, is designed to elevate the interest and awareness of the Breeders' Cup as the most prestigious event in international horse racing. Breeders' Cup will launch this new campaign with national television, radio, Internet and print media in outlets such as *USA Today*, *Sports Illustrated* and the *New York Post*.

Sponsorship

In 2006, Breeders' Cup added Grey Goose as an official marketing partner, joining existing sponsors Dodge, John Deere, Emirates Airline, NetJets, Bessemer Trust, UPS and TVG. All seven sponsors return for 2007 along with new suppliers Equibase and EquineLine.com.

Horses of Racing Age Nomination Program

In April 2006, the Board announced new nomination rules, which for the first time, allowed horses to be nominated to the Breeders' Cup program anytime during their racing careers at a cost of either \$150,000 or \$250,000, depending upon the status of the sire (i.e., \$150,000 if sire nominated to the Breeders' Cup; \$250,000 if not). Among those who took advantage of the new rules to the program in 2006 were the owners of Breeders' Cup Classic winner Invasor (ARG) and the owners of multiple grade 1 winners Lava Man and Aragorn (IRE). Over the next several years, we expect these rules allowing horses of racing age to be nominated to the Breeders' Cup will enhance the overall competition of the Championships with foreign-bred horses and generate additional revenue to fund future purse increases and new marketing programs.

Increased Sales Value of Breeders' Cup Nominated Horses

At the direction of the Racing & Nominations Committee of the Board, the staff completed an analysis of the sales results for yearlings and weanlings sold at public auction in 2006 which confirmed the importance of Breeders' Cup eligibility. Breeders' Cup nominated yearlings averaged seven times the price of non-nominated yearlings sold through North American sales companies. These results were consistent with the sales values of Breeders' Cup nominated horses for the previous five years.

2008 Breeders' Cup Site Selection – Most Lucrative Host Track Guarantee

Following the recommendation of the Board's Host Site Committee in April 2007, the Board unanimously approved the selection of the Oak Tree Racing Association to conduct the 2008 Breeders' Cup World Championships at Santa Anita Park on Friday, October 24, 2008 and Saturday, October 25, 2008. The Oak Tree agreement was secured with a minimum \$5 million guarantee from the host association, the highest guarantee in our 25-year history.

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BREEDERS' CUP LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

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BREEDERS' CUP LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

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Crowe Chizek and Company LLC
Member Horwath International

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Breeders' Cup Limited
Lexington, Kentucky

We have audited the accompanying consolidated statements of financial position of Breeders' Cup Limited (a New York non-profit organization) as of December 31, 2006 and 2005, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Breeders' Cup Limited's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Breeders' Cup Limited as of December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Crowe Chizek and Company LLC
Crowe Chizek and Company LLC

Lexington, Kentucky
May 31, 2007

BREEDERS' CUP LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31

	<u>2006</u>	<u>2005</u>
Assets		
Cash and cash equivalents	\$ 2,460,618	\$ 2,136,174
Accounts receivable, net	2,605,156	981,384
Accrued interest receivable	126,954	72,000
Investments	36,083,177	32,429,702
NTRA membership and management fee receivable	2,321,566	—
Receivable from NTRA Investments, LLC, net of discount of \$215,157 in 2006 and \$273,245 in 2005	2,147,438	4,101,755
Other assets, net	<u>159,004</u>	<u>174,134</u>
Total assets	<u>\$ 45,903,913</u>	<u>\$ 39,895,149</u>
 Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 391,287	\$ 132,730
Deferred revenue	482,308	592,086
NTRA membership and management fee payable	—	1,369,484
Separation agreement	699,683	—
Long-term note payable	<u>3,625,000</u>	<u>4,375,000</u>
Total liabilities	5,198,278	6,469,300
Commitments		
Capital contributions	65,000	80,000
Unrestricted net assets	<u>40,640,635</u>	<u>33,345,849</u>
Total net assets	<u>40,705,635</u>	<u>33,425,849</u>
Total liabilities and net assets	<u>\$ 45,903,913</u>	<u>\$ 39,895,149</u>

See accompanying notes.

BREEDERS' CUP LIMITED
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 31

	<u>2006</u>	<u>2005</u>
Revenues		
Nomination fees, net of stallion assessment refund of \$474,500 in 2006 and \$0 in 2005	\$ 22,542,304	\$ 16,967,060
Breeders' Cup Championships fees	22,902,149	17,613,217
Unrealized and realized gains on investments, net	2,877,146	1,293,236
Investment income, net	766,673	1,125,366
Other	1,003,070	1,090,198
Total revenues	50,091,342	38,089,077
Expenses		
NTRA membership and management fee	41,386,159	35,119,740
NTRA allocation	—	2,250,000
General and administrative expenses	489,594	570,093
Separation agreement	699,683	—
Discount of receivable under debt restructuring	—	273,245
Interest expense	221,120	227,715
Total expenses	42,796,556	38,440,793
Change in net assets from operations	7,294,786	(351,716)
Refund of capital contributions	(15,000)	(10,000)
Change in net assets	7,279,786	(361,716)
Total net assets, beginning of year	33,425,849	33,787,565
Total net assets, end of year	\$ 40,705,635	\$ 33,425,849

See accompanying notes.

BREEDERS' CUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Change in net assets from operations	\$ 7,294,786	\$ (351,716)
Adjustments to reconcile change in net assets from operations to net cash used in operating activities		
Discount of receivable under debt restructuring	—	273,245
Amortization of note receivable discount	(58,088)	—
Gain on sales of investments	(2,411,708)	(1,482,167)
Unrealized (gain)/loss on investments	(465,438)	188,931
Changes in		
Accounts receivable, net	(1,623,772)	(103,965)
Accrued interest receivable	(54,954)	(28,636)
Other assets, net	15,130	28,039
Accounts payable and accrued expenses	258,557	(57,898)
Deferred revenue	(109,778)	298,251
Separation agreement	699,683	—
NTRA membership and management fee receivable/payable	<u>(3,691,050)</u>	<u>410,314</u>
Net cash used in operating activities	(146,632)	(825,602)
Cash flows from investing activities		
Purchases of investments	(30,128,848)	(29,031,187)
Proceeds from sales of investments	29,352,519	27,695,170
Proceeds from NTRA Investments, LLC receivable	<u>2,012,405</u>	<u>625,000</u>
Net cash provided by/(used in) investing activities	1,236,076	(711,017)
Cash flows from financing activities		
Refund of capital contributions	(15,000)	(10,000)
Repayment of long-term note payable	<u>(750,000)</u>	<u>(625,000)</u>
Net cash used in financing activities	<u>(765,000)</u>	<u>(635,000)</u>
Net change in cash and cash equivalents	324,444	(2,171,619)
Cash and cash equivalents at beginning of year	<u>2,136,174</u>	<u>4,307,793</u>
Cash and cash equivalents at end of year	<u>\$ 2,460,618</u>	<u>\$ 2,136,174</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest	\$ 221,120	\$ 227,715

See accompanying notes.

BREEDERS' CUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation: The consolidated statements include the financial information of Breeders' Cup Limited and its wholly owned, for-profit subsidiary, Breeders' Cup Properties, LLC ("Properties"). All intercompany balances and transactions have been eliminated in consolidation.

Purpose of Organization and Nature of Operations: Breeders' Cup Limited was incorporated in 1980 as a non-profit organization whose purpose is to stimulate public interest in the sport of Thoroughbred horse racing. The primary goal of Breeders' Cup Limited is to build broad-based positive public awareness of Thoroughbred racing, thereby increasing fan participation in the sport and expanding opportunities for development of the Thoroughbred industry. This objective is achieved through a multimillion dollar year-round racing and promotional program.

Properties was established to own and operate commercial business ventures and investments that are profit motivated.

Revenue Recognition: The majority of revenues recognized by Breeders' Cup Limited relate to stallion and foal nomination fees and fees associated with the Breeders' Cup World Championships ("Championships"). Stallion nomination fees are recognized during the calendar year that corresponds to the related breeding season. Foal nomination fees are recognized during the year in which the foal is nominated. Championships fees include entry fees for horses, contributions from the host track and other simulcast facilities and royalties from licensed vendors. Fees associated with the Championships are recognized during the year in which the event is held. Amounts received in advance of the revenue recognition are reported as deferred revenue on the consolidated statements of financial position. Breeders' Cup Limited revenue is dependent on the overall economy of the Thoroughbred industry.

Cash and Cash Equivalents: Breeders' Cup Limited considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. At times, the company maintains checking account balances in a financial institution in excess of the insurance limits provided by the Federal Deposit Insurance Corporation (FDIC).

Accounts Receivable: Accounts receivable consist primarily of nomination fees and amounts associated with the Championships. Breeders' Cup Limited considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. Interest is not normally charged on receivables.

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BREEDERS' CUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

In 2006, Breeders' Cup Limited required additional stallion nomination fees for stallions producing 50 or more live foals. Refunds related to these new stallion assessments could be payable by Breeders' Cup Limited if the number of actual live foals differs from the number on which the assessment was based. Stallion assessment refunds for 2006 are estimated in a total amount of \$474,500 and are recorded as an allowance against accounts receivable on the consolidated statements of financial position. If actual results vary from this estimate, changes in net assets in future years will be decreased or increased, as appropriate.

Investments: Investments consist of marketable equity securities and marketable debt securities. Breeders' Cup Limited records investments at fair value as determined based on quoted market amounts. For purposes of calculating realized gains and losses, the specific identification method is used to determine the carrying value of investment securities sold.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. To the extent actual results differ from those estimates, future revenues and expenses could be affected.

Debt Restructuring: The debt restructuring that occurred in 2006 between Breeders' Cup Properties, LLC and NTRA Investments, LLC, discussed in Note 3, is considered a troubled debt restructuring in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 114, "Accounting for Creditors for Impairment of a Loan."

NOTE 2 – BREEDERS' CUP PROPERTIES, LLC

Properties is capitalized with \$10,000 in common stock and \$2,490,000 of paid-in capital. The common stock and paid-in capital have been eliminated in consolidation.

Properties has a long-term note payable with a bank of \$3,625,000 and \$4,375,000 as of December 31, 2006 and 2005, respectively, (the purpose of which is discussed in Note 3 – NTRA and NTRA Investments, LLC). The original note of \$5,000,000 carried an interest rate of 1.5% below the prime

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BREEDERS' CUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 2 – BREEDERS' CUP PROPERTIES, LLC *(Continued)*

rate and had a maturity date of September 1, 2006. In June 2005, Properties renegotiated this note such that the interest rate is fixed at 5.25% and the maturity date is December 31, 2008. During 2006, \$750,000 was paid to the bank as required. Future required principal payments consist of semi-annual amounts of \$375,000 in 2007 through 2008, with the remaining balance due upon maturity. This credit facility is secured by certain investment securities of the parent company, Breeders' Cup Limited, which also is the note guarantor.

NOTE 3 – NTRA AND NTRA INVESTMENTS, LLC

The National Thoroughbred Racing Association, Inc. (NTRA) is a 501(c)(6) non-profit membership association organized to increase public awareness of Thoroughbred racing and to improve economic conditions for industry participants. Breeders' Cup Limited is a founding member of NTRA.

Membership & Management Services Agreement: Effective January 1, 2001 and for a ten-year term ending December 31, 2010, Breeders' Cup Limited entered into a Membership and Management Services Agreement ("Agreement") with NTRA. Under the Agreement, NTRA performs the normal day-to-day business operations of Breeders' Cup Limited. Breeders' Cup Limited pays NTRA a Membership and Management Services Fee. This fee is an annual sum, payable at least quarterly, equal to all Breeders' Cup Limited operating revenues, excluding investment income, dividends and interest income, license fee income to be paid by NTRA and net income from Breeders' Cup Properties, less general and administrative expenses and other expenses necessary to operate Breeders' Cup Limited.

In connection with this Agreement, Breeders' Cup Limited provides a non-transferable, non-exclusive, royalty-free license for NTRA to utilize various intellectual property, including copyrights, patents, trademarks, logos, customer information and other information. Breeders' Cup Limited retains full ownership of this property and the rights associated with it.

On December 1, 2005, Breeders' Cup Limited and NTRA amended the Agreement whereby termination by Breeders' Cup Limited may occur annually after December 31, 2005 by giving written notice to NTRA no later than September 30 of each year to be effective December 31 of the subject year. On August 25, 2006, Breeders' Cup Limited provided written notice to NTRA for termination of this Agreement effective December 31, 2006.

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BREEDERS' CUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 3 – NTRA AND NTRA INVESTMENTS, LLC *(Continued)*

Additionally, effective January 1, 2006, Breeders' Cup Limited and NTRA agreed to modify the Agreement whereby actual revenues for Breeders' Cup Limited in excess of budget revert back to Breeders' Cup Limited. In the event that Breeders' Cup Limited revenues fall short of budgeted revenues, NTRA would reduce Breeders' Cup operational expenses in an effort to make up the shortfall; however, Breeders' Cup Limited would provide to NTRA the amount of any revenue shortfall that could not be recovered through expense reduction.

For the year ended December 31, 2006 actual revenues related directly to the activities of Breeders' Cup Limited exceeded budgeted revenues by \$4,572,523. This amount is offset against NTRA membership and management fee payable of \$2,250,957, resulting in a net receivable from NTRA of \$2,321,566 for the year ended December 31, 2006.

NTRA Allocation: Breeders' Cup Limited may provide NTRA with an annual allocation in support of NTRA programs and operations for a specific year. This allocation, if applicable, will be payable on or before December 31 of each year. Breeders' Cup Limited did not commit an allocation for the year ended December 31, 2006. The allocation was \$2,250,000 for the year ended December 31, 2005.

Affiliation Agreement with NTRA: Breeders' Cup Limited and NTRA agreed in principle to the terms of an Affiliation Agreement in which the two companies will continue to share various resources such as personnel, office space and administrative expenses for two years beginning January 1, 2007 and ending December 31, 2008. The agreement also sets forth the methods for fulfilling sponsorship contracts under which both companies are contractually obligated. Breeders' Cup Limited will pay membership dues to NTRA in an amount of \$800,000 in 2007. Membership dues for 2008 shall be subject to further definition of the future structure and membership of NTRA.

Breeders' Cup Limited has agreed to assume rent expense for its pro rata share of NTRA's office lease obligations. It is expected that this expense will be approximately \$350,000 in 2007 and \$150,000 in 2008.

NTRA Investments, LLC: During 1999, NTRA formed NTRA Investments, LLC ("NTRA Investments") to conduct for-profit activities, including the purchase of both the tangible and intangible horse racing-related television production assets and rights of Winner Communications, Inc., now called, and henceforth referred to as Winnercomm, Inc. ("Winnercomm"). To fund this purchase in 1999 Breeders' Cup Limited through its subsidiary, Breeders' Cup Properties, LLC, along with The Jockey

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BREEDERS' CUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 3 – NTRA AND NTRA INVESTMENTS, LLC *(Continued)*

Club, Inc., Keeneland Association and Oak Tree Charitable Foundation, entered into a term loan agreement with NTRA Investments.

NTRA Investments has total assets of approximately \$8,395,000 and \$12,592,000; total liabilities of \$7,874,000 and \$14,490,000; and total revenues of \$12,248,000 and \$13,807,000 for the years ended December 31, 2006 and 2005, respectively.

Breeders' Cup Properties has a note receivable, net of discount, from NTRA Investments in an amount of \$2,147,438 and \$4,101,755 as of December 31, 2006 and 2005, respectively. On June 30, 2006 the terms of the note were revised such that no interest will be paid and the maturity date is February 29, 2012. Interest was previously fixed at 4% until maturity on September 31, 2006. The restructuring of this note, including the loss of future interest payments, resulted in the recognition of a discount against the note receivable in order to adjust it to present value. This discount is recognized in 2005 as expense of \$273,245 and is reflected in the consolidated statements of activities. The note receivable is recorded net of discount of \$215,157 and \$273,245 as of December 31, 2006 and 2005, respectively. The discount is amortized over the term of the note using the effective interest method; therefore \$58,088 is included in interest income in 2006.

Breeders' Cup Properties received \$2,012,405 and \$625,000 from NTRA Investments as payment against this note in 2006 and 2005. Future payments are expected to be approximately \$469,000 in 2007 and 2008 and \$390,000 each year thereafter until fully settled. These expected future payments are derived from half the revenue received by NTRA Investments from ODS Technologies, L.P. ("TVG"). The wagering activities of TVG could be affected by the recent establishment of a competitive organization, TrackNet Media, a joint venture of Churchill Downs, Inc. and Magna Entertainment Corp. Additionally, races held at Churchill Downs tracks will no longer be available to TVG for wagering activities. It is uncertain at this time the financial impact this will have on TVG or NTRA Investments and the ultimate collectibility of Breeders' Cup Properties note receivable.

NOTE 4 – INVESTMENTS

The long-term investment strategy of Breeders' Cup Limited includes the utilization of both marketable equity and debt securities. All investments are carried at fair value. The fair values of such securities at December 31 are as follows:

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BREEDERS' CUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 4 – INVESTMENTS *(Continued)*

	<u>2006</u>	<u>2005</u>
Corporate stocks	\$28,328,691	\$ 25,269,038
U.S. Treasury, agency and corporate bonds	<u>7,754,486</u>	<u>7,160,664</u>
	<u>\$36,083,177</u>	<u>\$32,429,702</u>

Investment income for the years ended December 31 consists of the following:

	<u>2006</u>	<u>2005</u>
Interest and dividends	\$ 877,562	\$ 1,252,190
Investment management fees	<u>(110,889)</u>	<u>(126,824)</u>
	<u>\$ 766,673</u>	<u>\$ 1,125,366</u>

NOTE 5 – RELATED PARTY TRANSACTIONS

The Board of Trustees and Directors of Breeders' Cup Limited is made up primarily of individuals involved in many facets of the Thoroughbred industry, including the breeding and racing of Thoroughbred horses. Breeders' Cup Limited's trustees, directors and employees may own horses directly or through partnerships that are eligible for Breeders' Cup purses and awards. Certain trustees, directors or their farms are managers with respect to certain stallions and foals that collectively generate a majority of the stallion and foal nomination fees on behalf of Breeders' Cup Limited. In addition, certain trustees or directors of Breeders' Cup Limited also serve as directors of the NTRA.

NOTE 6 – INCOME TAXES

Breeders' Cup Limited is exempt from federal income tax under section 501(c)(6) of the Internal Revenue Code. The for-profit subsidiary, Properties, is subject to tax on taxable income, if any. The tax effect of the activities of Breeders' Cup Limited and Properties does not materially impact the consolidated financial statements.

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BREEDERS' CUP LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 6 – INCOME TAXES *(Continued)*

Properties has net operating loss carryforwards of approximately \$3,050,000 and \$2,960,000 at December 31, 2006 and 2005 which will begin expiring in 2020. Properties does not anticipate generating taxable income to be able to utilize the net operating loss carryforwards before their expiration and, therefore, has recorded a full valuation allowance to offset the deferred tax asset related to the future tax benefit.

NOTE 7 – LINE OF CREDIT

Breeders' Cup Limited has a revolving line of credit with a bank for an amount up to \$5,000,000. The line of credit is secured by certain investment securities, bears interest at 2% below the prime interest rate, and matures on June 30, 2007. Breeders' Cup Limited had no advances on this line of credit at December 31, 2006 or December 31, 2005.

NOTE 8 – SEPARATION AGREEMENT

In July 2006, the Board of Directors agreed to a separation agreement with the President of Breeders' Cup Limited. The separation agreement provides for one and one half times the President's annual salary to be paid in monthly installments of \$22,180 beginning January 1, 2007 through December 31, 2009. In addition, the President and spouse are entitled to receive health insurance benefits through June 2013 or until such time as the President accepts another position. The total liability approximates \$890,000. NTRA has agreed to pay \$100,000 of the liability with the remaining balance of \$790,000 owed by Breeders' Cup Limited. This expense and related liability was discounted to a present value of \$699,684, and is labeled separation agreement on the consolidated statements of activities and consolidated statements of financial position.