## General

The general nature of our business is a motorsports themed amusement enterprise; furnishing amusement to the public in the form of motorsports themed entertainment. We derive revenues primarily from (i) admissions to motorsports events and motorsports themed amusement activities held at our facilities, (ii) revenue generated in conjunction with or as a result of motorsports events and motorsports themed amusement activities conducted at our facilities, and (iii) catering, concession and merchandising services during or as a result of these events and amusement activities.

"Admissions, net" revenue includes ticket sales for all of our racing events, activities at DAYTONA USA and other motorsports activities and amusements, net of any applicable taxes.

"Motorsports related" revenue primarily includes television, radio and ancillary rights fees, marketing partnership fees, hospitality rentals (including luxury suites, chalets and the hospitality portion of club seating), advertising, track rentals and royalties from licenses of our trademarks.

"Food, beverage and merchandise" revenue includes revenues from concession stands, direct sales of souvenirs, hospitality catering, programs and other merchandise and fees paid by third party vendors for the right to occupy space to sell souvenirs and concessions at our facilities.

Direct expenses include (i) prize and point fund monies and NASCAR sanction fees, (ii) motorsports related expenses, which include labor, advertising, costs of competition paid to sanctioning bodies other than NASCAR and other expenses associated with the promotion of all of our motorsports events and activities, and (iii) food, beverage and merchandise expenses, consisting primarily of labor and costs of goods sold.

## Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While our estimates and assumptions are based on conditions existing at and trends leading up to the time the estimates and assumptions are made, actual results could differ materially from those estimates and assumptions. We continually review our accounting policies, how they are applied and how they are reported and disclosed in the financial statements.

The following is a summary of our critical accounting policies and estimates and how they are applied in the preparation of the financial statements.

*Basis of Presentation and Consolidation.* We consolidate all entities we control by ownership of a majority voting interest. Also, if we ever have variable interest entities for which we are the primary beneficiary, we will consolidate those entities. We do not currently have variable interest entities for which we are the primary beneficiary. Our judgment in determining if we are the primary beneficiary of a variable interest entity includes assessing our level of involvement in establishing the entity, determining whether we provide more than half of any management, operational or financial support to the entity, and determining if we absorb the majority of the entity's expected losses or returns.

We apply the equity method of accounting for our investments in joint ventures and other investees whenever we can exert significant influence on the investee but do not have effective control over the investee. Our consolidated net income includes our share of the net earnings or losses from these investees. Our judgment regarding the level of influence over each equity method investee includes considering factors such as our ownership interest, board representation and policy-making decisions. We periodically evaluate these equity investments for potential impairment where a decline in value is determined to be other than temporary.

We use the cost method to account for investments in entities that we do not control and for which we do not have the ability to exercise significant influence over operating and financial policies. We eliminate all significant intercompany transactions from financial results.

*Revenue Recognition.* Advance ticket sales and event-related revenues for future events are deferred until earned, which is generally once the events are conducted. The recognition of event-related expenses is matched with the recognition of event-related revenues.

NASCAR contracts directly with certain network providers for television rights to the entire NASCAR NEXTEL Cup and NASCAR Busch series schedules. Event promoters share in the television rights fees in accordance with the provision of the sanction agreement for each NASCAR NEXTEL Cup and NASCAR Busch series event. Under the terms of this arrangement, NASCAR retains 10.0 percent of the gross broadcast rights fees allocated to each NASCAR NEXTEL Cup or NASCAR Busch series event as a component of its sanction fees and remits the remaining 90.0 percent to the event promoter. The event promoter pays 25.0 percent of the gross broadcast rights fees allocated to the event as part of awards to the competitors.

Our revenues from marketing partnerships are paid in accordance with negotiated contracts, with the identities of partners and the terms of sponsorship changing from time to time. Some of our marketing partnership agreements are for multiple facilities and/or events and include multiple specified elements, such as tickets, hospitality chalets, suites, display space and signage for each included event. The allocation of such marketing partnership revenues between the multiple elements, events and facilities is based on relative fair value. The sponsorship revenue allocated to an event is recognized when the event is conducted.

Revenues and related costs from the sale of merchandise to retail customers, internet sales and direct sales to dealers are recognized at the time of sale.

*Accounts Receivable.* We regularly review the collectibility of our accounts receivable. An allowance for doubtful accounts is estimated based on historical experience of write-offs and future expectations of conditions that might impact the collectibility of accounts.

*Business Combinations.* All business combinations are accounted for under the purchase method. Whether net assets or common stock is acquired, fair values are determined and assigned to the purchased assets and assumed liabilities of the acquired entity. The excess of the cost of the acquisition over fair value of the net assets acquired (including recognized intangibles) is recorded as goodwill. Business combinations involving existing motorsports entertainment facilities commonly result in a significant portion of the purchase price being allocated to the fair value of the contract-based intangible asset associated with long-term relationships manifest in the sanction agreements with sanctioning bodies, such as NASCAR, Grand American Road Racing Association ("Grand American") and/or Indy Racing League ("IRL"). The continuity of sanction agreements with these bodies has historically enabled the facility operator to host motorsports events year after year. While individual sanction agreements may be of terms as short as one year, a significant portion of the purchase price in excess of the fair value of acquired tangible assets is commonly paid to acquire anticipated future cash flows from events promoted pursuant to these agreements which are expected to continue for the foreseeable future and therefore, in accordance with SFAS No. 141, are recorded as indefinite-lived intangible assets recognized apart from goodwill.

*Capitalization and Depreciation Policies.* Property and equipment are stated at cost. Maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Depreciation and amortization for financial statement purposes are provided on a straight-line basis over the estimated useful lives of the assets. When we construct assets, we capitalize costs of the project, including, but not limited to, certain preacquisition costs, permitting costs, fees paid to architects and contractors, certain costs of our design and construction subsidiary, property taxes and interest.

We must make estimates and assumptions when accounting for capital expenditures. Whether an expenditure is considered an operating expense or a capital asset is a matter of judgment. When constructing or purchasing assets, we must determine whether existing assets are being replaced or otherwise impaired, which also is a matter of judgment. Our depreciation expense for financial statement purposes is highly dependent on the assumptions we make about our assets' estimated useful lives. We determine the estimated useful lives based upon our experience with similar assets, industry, legal and regulatory factors, and our expectations of the usage of the asset. Whenever events or circumstances occur which change the estimated useful life of an asset, we account for the change prospectively.

Interest costs associated with major development and construction projects are capitalized as part of the cost of the project. Interest is typically capitalized on amounts expended using the weighted-average cost of our outstanding borrowings, since we typically do not borrow funds directly related to a development or construction project. We capitalize interest on a project when development or construction activities begin and cease when such activities are substantially complete or are suspended for more than a brief period.

*Impairment of Long-lived Assets, Goodwill and Other Intangible Assets.* Our consolidated balance sheets include significant amounts of long-lived assets, goodwill and other intangible assets. Our intangible assets are comprised of assets having finite useful lives, which are amortized over that period, and goodwill and other non-amortizable intangible assets with indefinite useful lives. Current accounting standards require testing these assets for impairment, either upon the occurrence of an impairment indicator or annually, based on assumptions regarding our future business outlook. While we continue to review and analyze many factors that can impact our business prospects in the future, our analyses are subjective and are based on conditions existing at and trends leading up to the time the estimates and assumptions are made. Actual results could differ materially from these estimates and assumptions. Our judgments with regard to our future business prospects could impact whether or not an impairment is deemed to have occurred, as well as the timing of the recognition of such an impairment charge. Our equity method investees also perform such tests for impairment of long-lived assets, goodwill and other intangible assets.

*Self-Insurance Reserves.* We use a combination of insurance and self-insurance for a number of risks including general liability, workers' compensation, vehicle liability and employee-related health care benefits. Liabilities associated with the risks that we retain are estimated by considering various historical trends and forward-looking assumptions related to costs, claim counts and payments. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

*Income Taxes.* The tax law requires that certain items be included in our tax return at different times than when these items are reflected in our consolidated financial statements. Some of these differences are permanent, such as expenses not deductible on our tax return. However, some differences reverse over time, such as depreciation expense, and these temporary differences create deferred tax assets and liabilities. Our estimates of deferred income taxes and the significant items giving rise to deferred tax assets and liabilities reflect our assessment of actual future taxes to be paid on items reflected in our financial statements, giving consideration to both timing and probability of realization. Actual income taxes could vary significantly from these estimates due to future changes in income tax law or changes or adjustments resulting from final review of our tax returns by taxing authorities, which could also adversely impact our cash flow.

In the ordinary course of business, there are many transactions and calculations where the ultimate tax outcome is uncertain. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws. We recognize probable liabilities for tax audit issues, including interest and penalties, based on an estimate of the ultimate resolution of whether, and the extent to which, additional taxes will be due. Although we believe the estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different than what is reflected in the historical income tax provisions and accruals. Such differences could have an impact on the income tax provision and operating results in the period in which such determination is made.

*Contingent Liabilities.* Our determination of the treatment of contingent liabilities in the financial statements is based on our view of the expected outcome of the applicable contingency. In the ordinary course of business we consult with legal counsel on matters related to litigation and other experts both within and outside our company. We accrue a liability if the likelihood of an adverse outcome is probable and the amount of loss is reasonably estimable. We disclose the matter but do not accrue a liability if either the likelihood of an adverse outcome is only reasonably possible or an estimate of loss is not determinable. Legal and other costs incurred in conjunction with loss contingencies are expensed as incurred.

## Acquisition and Divestitures

*Martinsville Speedway and North Carolina Speedway*

On July 13, 2004, we acquired the assets of Martinsville Speedway ("Martinsville"), and assumed the operations as well as certain liabilities of Martinsville for approximately $194.8 million, including acquisition costs. Martinsville was privately owned, with certain members of the France Family Group, which controls in excess of 60.0 percent of the combined voting interest of ISC, owning 50.0 percent of Martinsville. The acquisition was funded by $100.4 million in proceeds from the sale of the assets of North Carolina and approximately $94.4 million in cash. Martinsville's operations are included in our consolidated operations subsequent to the date of acquisition.

As required by the settlement agreement in the Ferko/Vaughn litigation ("Settlement Agreement") dated April 8, 2004, our North Carolina Speedway, Inc. subsidiary entered into an Asset Purchase Agreement with Speedway Motorsports, Incorporated ("SMI") for the sale of the tangible and intangible assets and operations of North Carolina. Under the terms of the Settlement Agreement, SMI's subsidiary purchased North Carolina's assets and assumed its operations for approximately $100.4 million in cash. The sale of North Carolina's assets closed on July 1, 2004, and we recorded an after-tax gain in our third quarter of fiscal 2004 of approximately $36.3 million.

For all periods presented, the results of operations of North Carolina, including the gain on sale, are presented as discontinued operations.

*Nazareth Speedway*

After the completion of Nazareth's fiscal 2004 events we suspended indefinitely its major motorsports event operations. The NASCAR Busch Series and IRL IndyCar Series events, then conducted at Nazareth, were realigned to other motorsports entertainment facilities within our portfolio.

In January 2006, we entered into an agreement with NZSW, LLC ("NZSW") for the sale of 158 acres, on which Nazareth Speedway is located, for approximately $18.8 million. Under the terms of the contract the sale transaction is expected to close during fiscal 2007. Upon closing the transaction, we expect to record an after-tax gain from discontinued operations of approximately $6.0 to $7.0 million, or $0.11 to $0.13 per diluted share.

For all periods presented, the results of operations of Nazareth are presented as discontinued operations.

*Pikes Peak International Raceway*

On October 7, 2005, we acquired the assets and assumed certain liabilities of Pikes Peak International Raceway ("Pikes Peak") for approximately $12.0 million. Subsequent to the purchase, the NASCAR Busch Series event, then conducted at Pikes Peak, was realigned to another motorsports entertainment facility within our portfolio for the fiscal 2006 racing season and we suspended indefinitely major motorsports event operations at the facility on October 31, 2005. We intend to relocate certain Pikes Peak fixed assets to other facilities within our portfolio. These assets include grandstand seating and other structures that can be utilized for future speedway expansion projects. We are currently pursuing the sale of the land on which Pikes Peak is located.

*Raceway Associates*

At November 30, 2006, we indirectly owned 37.5 percent of Raceway Associates, which owns Chicagoland Speedway ("Chicagoland") and Route 66 Raceway, both of which are located in Joliet, Illinois. Route 66 Raceway hosts events including National Hot Rod Association POWERade drag racing series events, dirt oval racing and concerts and has grandstands that seat approximately 30,000 spectators. Chicagoland is a 1.5-mile moderately banked, asphalt, oval superspeedway. The motorsports entertainment facility has grandstands, which seat approximately 75,000 spectators, and 24 luxury suites containing approximately 1,000 additional seats. Chicagoland promotes a NASCAR NEXTEL Cup Series, NASCAR Busch Series, IRL IndyCar Series and Automobile Racing Club of America RE/MAX Series event.

In November 2006, we announced that, through a wholly-owned subsidiary, we had entered into a purchase agreement with Indianapolis Motor Speedway Corporation ("IMS") to indirectly acquire an additional 37.5 percent interest in Raceway Associates. As a result of the transaction, we will own 100.0 percent of Motorsports Alliance, LLC ("Motorsports Alliance"), which owns 75.0 percent of Raceway Associates. Concurrent with the IMS transaction, we also exercised our right to purchase the minority partners' remaining 25.0 percent interest in Raceway Associates pursuant to the 1999 Raceway Associates formation agreement.

All the above transactions closed on February 2, 2007, for a total purchase price of approximately $102.4 million. These transactions will be accounted for as a business combination.

We believe that Chicagoland Speedway and Route 66 are uniquely attractive assets well-positioned in the nation's third largest media market. The region boasts a strong motorsports fan base, demonstrated by six consecutive years of season ticket sell-outs at Chicagoland Speedway since opening in 2001. We believe our active representation on Raceway Associates' management committee since 2001 and extensive knowledge of the motorsports business will help ensure a seamless integration into ISC.

## Impairment of Long-Lived Assets

During fiscal 1999, we announced our intention to search for a site for a major motorsports entertainment facility in the New York metropolitan area (see "Future Liquidity"). The decision to discontinue our speedway development efforts on Staten Island, in our fiscal 2006 fourth quarter, resulted in a non-cash, pre-tax charge in our results of approximately $84.7 million, or $1.01 per diluted share after-tax. Accounting principles generally accepted in the United States require that the property be valued at its current fair value, which is estimated by an independent appraisal at approximately $65.0 million. Prior to the write-off, we had capitalized spending of approximately $150.0 million through November 30, 2006, including: (1) $123.0 million for land and related improvements, (2) $11.0 million for costs related solely to the development of the speedway, and (3) $16.0 million for capitalized interest and property taxes. The value of the property is expected to be in excess of $100.0 million once it is filled and ready for sale.

## Equity and Other Investments

*Motorsports Authentics*

On August 30, 2005, we partnered with SMI in a 50/50 joint venture, SMISC, LLC ("SMISC"), which, through a wholly-owned subsidiary

Motorsports Authentics, LLC, conducts business under the name Motorsports Authentics. Motorsports Authentics operates as an independent company with us and SMI as equal owners. Also on August 30, 2005, we announced that SMISC had entered into a definitive agreement dated August 29, 2005, to purchase the stock of Action Performance Companies, Inc. ("Action"). The acquisition was structured as a merger of a wholly-owned subsidiary of Motorsports Authentics, LLC into Action.

The acquisition of Action was completed on December 9, 2005, which resulted in an investment of approximately $124.6 million and was combined with the net assets and merchandising operations of Team Caliber, which Motorsports Authentics acquired on September 8, 2005. As a result of these acquisitions, Motorsports Authentics is now a leader in design, promotion, marketing and distribution of motorsports licensed merchandise. Motorsports Authentics has licenses for exclusive and non-exclusive distribution with teams competing in NASCAR and other major motorsports series. Its products include a broad range of motorsports-related die-cast replica collectibles, apparel, gifts and other memorabilia, which are marketed through a combination of mass retail, domestic wholesale, trackside, international and collector's club distribution channels.

*Proximities, Inc.*

We acquired an approximately 24.5 percent interest in Proximities, Inc. ("Proximities") in November 2004 through the purchase of Proximities' Series B Preferred Stock for approximately $2.0 million. Proximities is developing products which are to be marketed as secure Radio Frequency Identification cashless payment, access control and age verification systems. Proximities is a variable interest entity as determined in accordance with FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." We do not consolidate the operations of Proximities as we are not the primary beneficiary. The maximum exposure to loss as a result of our involvement with Proximities at November 30, 2006 is approximately $243,000.

## Limited Partnership Agreement

In October 2006 we entered into a limited partnership agreement with Group Motorisé International ("GMI") to organize, promote and hold certain racing events at Circuit Gilles Villeneuve, including a NASCAR Busch Series and Grand American Rolex Sports Car Series presented by Crown Royal Special Reserve race weekend in the third quarter of fiscal 2007. Circuit Gilles Villeneuve is a road course located in Montréal, Quebec, at which GMI currently promotes a successful F1 Canadian Grand Prix event. The agreement is not expected to have a material effect on our financial condition or results of operations in fiscal 2007.

## Future Trends in Operating Results

Our success has been, and is expected to remain, dependent on maintaining good working relationships with the organizations that sanction events at our facilities, particularly with NASCAR, whose sanctioned events at our wholly-owned facilities accounted for approximately 87.6 percent of our revenues in fiscal 2006. In January 2003, NASCAR announced it would entertain and discuss proposals from track operators regarding potential realignment of NASCAR NEXTEL Cup Series dates to more geographically diverse and potentially more desirable markets where there may be greater demand, resulting in an opportunity for increased revenues to the track operators. NASCAR approved realignments of certain NASCAR NEXTEL Cup and other events at our facilities for the 2004, 2005 and 2006 seasons. We believe that the realignments have provided, and will continue to provide, additional net positive revenue and earnings as well as further enhance the sport's exposure in highly desirable markets, which we believe benefits the sport's fans, teams, sponsors and television broadcast partners as well as promoters. NASCAR has indicated that it is open to discussion regarding additional date realignments. We believe we are well positioned to capitalize on these future opportunities.

Fiscal 2006 was our last year under NASCAR's multi-year consolidated television broadcast rights agreements with NBC Sports, Turner Sports, FOX and FX. These agreements cover the domestic broadcast of NASCAR's NEXTEL Cup and Busch series racing seasons from 2001 through 2006. Under these agreements, television rights fees increased approximately 15.7 percent for the industry in fiscal 2006. Television broadcast and ancillary rights fees from continuing operations received from NASCAR for the NASCAR NEXTEL Cup and NASCAR Busch series events conducted at our wholly-owned facilities for fiscal 2006, 2005 and 2004 were approximately $273.4 million, $235.9 million and $188.9 million, respectively.

NASCAR has entered into new combined eight-year agreements with FOX, ABC/ESPN, TNT and SPEED beginning in 2007 for the domestic broadcast and related rights for its NEXTEL Cup, Busch and Craftsman Truck series. The agreements are expected to total approximately $4.5 billion over the eight year period from 2007 through 2014. This results in an approximate $560.0 million gross average annual rights fee for the industry, a more than 40.0 percent increase over the current contract average of $400.0 million annually. The industry rights fees are expected to approximate $505.0 million for 2007, with increases, on average, of approximately three percent per year through the 2014 season. The annual increase is expected to vary between two and four percent per year over the period. While the 2007 rights fees will be less than the 2006 rights fees of approximately $576.0 million, in our opinion this should not overshadow the strategic importance and expected long-term benefits of the new contracts. Over the past several years, there has been a shift of major sports programming from network to cable. The cable broadcasters can support a higher investment through subscriber fees not available to networks, which has resulted in increased rights fees for these sports properties. Cable, however, reaches far fewer households than network broadcasts. We view NASCAR's decision to keep approximately two-thirds of its event schedule on network television as important to the sport's future growth. The structure should continue to drive increased fan and media awareness for all three racing series, which will help fuel our long-term attendance and corporate-related revenues. We also welcome the chance to re-establish the sport's broadcast relationship with ESPN, which we believe will result in further exposure for NASCAR racing. First, we believe the NASCAR Busch Series will significantly benefit from the improved continuity of its season-long presence on ESPN. In addition, we believe the sport as a whole will benefit from the increased ancillary programming and nightly and weekly NASCAR-branded programming and promotions, similar to what ESPN does with the other major sports. The most significant benefit of the new contracts is the substantial increase in earnings and cash flow visibility for the entire industry over the contract period.

As media rights revenues fluctuate so do the variable costs tied to the percentage of broadcast rights fees required to be paid to competitors as part of NASCAR NEXTEL Cup, Busch and Craftsman Truck series sanction agreements. NASCAR prize and point fund monies, as well as sanction fees ("NASCAR direct expenses"), are outlined in the sanction agreement for each event and are negotiated in advance of an event. As previously discussed, included in these NASCAR direct expenses are 25.0 percent of the gross domestic television broadcast rights fees allocated to our NASCAR NEXTEL Cup, Busch and Craftsman Truck series events as part of prize and point fund money. These annually negotiated contractual amounts paid to NASCAR contribute to the support and growth of the sport of NASCAR stock car racing through payments to the teams and sanction fees paid to NASCAR. As such, we do not expect these costs to decrease in the future as a percentage of admissions and motorsports related income. We anticipate any operating margin improvement to come primarily from economies of scale and controlling costs in areas such as motorsports related and general and administrative expenses.

Economic conditions may impact our ability to secure revenues from corporate marketing partnerships. However, we believe that our presence in key markets and impressive portfolio of events are beneficial as we continue to pursue renewal and expansion of existing marketing partnerships and establish new corporate marketing partners. We believe that revenues from our corporate marketing partnerships will continue to grow over the long term.

An important component of our operating strategy has been our long-standing practice of focusing closely on supply and demand regarding additional capacity at our facilities. We continually evaluate the demand for our most popular racing events in order to add capacity that we believe will provide an acceptable rate of return on invested capital. Through prudent expansion, we attempt to keep demand at a higher level than supply, which stimulates ticket renewals and advance sales. Advance ticket sales result in earlier cash flow and reduce the potential negative impact of actual and forecasted inclement weather on ticket sales. While we will join with sponsors to offer promotions to generate additional ticket sales, we avoid rewarding last-minute ticket buyers by discounting tickets. We believe it is more important to encourage advance ticket sales and maintain price integrity to achieve long-term growth than to capture short-term incremental revenue. We recognize that a number of factors relating to discretionary consumer spending, including economic conditions affecting disposable consumer income such as employment and other lifestyle and business conditions, can negatively impact attendance at our events. Accordingly, we have instituted only modest increases in our weighted average ticket prices for fiscal 2007. In addition, we are limiting the expansion of our facilities in fiscal 2007 to projects at our Richmond International Raceway ("Richmond") which will be completed in time for its NASCAR NEXTEL Cup and Busch series spring events. Richmond will be removing approximately 2,900 obstructed view grandstand seats from Turns 3 and 4 and are adding approximately 7,800 grandstand seats in a new, state-of-the-art, 18-story structure located in Turn 1. The new, three-tiered grandstand will also include a 700-person, members-only Club for individual fans looking to enjoy a race weekend in style or businesses seeking to entertain clients. The Club will also serve as a unique site for special events on non-race weekends throughout the year. We will continue to evaluate expansion opportunities, as well as the pricing and packaging of our tickets and other products, on an ongoing basis. Over the long term, we plan to continue to expand capacity at our speedways.

Since we compete with newer entertainment venues for patrons and sponsors, we will continue to evaluate opportunities to enhance our facilities, thereby producing additional revenue generating opportunities for us and improving the experience for our guests. One major example of these efforts is the infield renovation at Daytona International Speedway ("Daytona") that was completed for the start of the 2005 racing season. The infield renovation features numerous fan amenities and unique revenue generating opportunities, including garage walk-through areas, additional merchandise and concessions vending areas, waterfront luxury recreational vehicle parking areas, a large tunnel to accommodate team haulers and guest recreational vehicles in and out of the infield and other special amenities such as the infield's signature structure, the Daytona 500 Club. The fan and guest response to our renovation efforts at Daytona has been overwhelmingly positive and has resulted in incremental direct and, we believe, indirect revenue generation. Another example of our efforts to enhance the fan experience includes the fiscal 2005 renovation of Michigan International Speedway's ("Michigan") front stretch, including new ticket gates, new vendor and display areas, and several new concession stands, as well as the addition of club seats and luxury suites. For fiscal 2006, we completed additional renovation projects at California Speedway ("California") and Talladega Superspeedway ("Talladega"). At California, we renovated and expanded the facility's front midway area. The new plaza features a full-service outdoor café with cuisine by celebrity chef Wolfgang Puck, in addition to a town center, retail store and concert stage. Other highlights include shade features, modified entry gates, expanded hospitality areas, radio broadcast locations, giant video walls, leisure areas and grass and water accents. This project was the direct result of fan feedback, and further demonstrates our commitment to providing a premium entertainment environment for our guests. We also repaved Talladega's 2.6 mile oval in time for that facility's fall NASCAR NEXTEL Cup weekend. Talladega's racing surface had not been repaved since 1979, and we believe the newly paved racing surface enhanced the thrilling on-track competition.

## Daytona International Speedway Lease Extension

On March 29, 2006, Daytona amended its lease agreement with the Daytona Beach Racing and Recreational Facilities District (the "District"). The amended lease extends the relationship between Daytona and the District through November 7, 2054.

The new lease required an initial annual payment, excluding applicable sales taxes, of $500,000 and includes scheduled rent increases every five years. Accounting principles generally accepted in the United States require the total lease cost over the revised lease term to be recognized on a straight-line basis. As a result, this lease expense in fiscal 2006, including sales taxes, totaled approximately $500,000. For fiscal years 2007 through 2054, we anticipate this lease expense, including sales taxes, to approximate $800,000 per year.

## Current Litigation

From time to time, we are a party to routine litigation incidental to our business. We do not believe that the resolution of any or all of such litigation will have a material adverse effect on our financial condition or results of operations.

In addition to such routine litigation incident to our business, we are a party to the litigation described below.

In July 2005, Kentucky Speedway, LLC filed a civil action in the Eastern District of Kentucky against NASCAR and us alleging that "NASCAR and ISC have acted, and continue to act, individually and in combination and collusion with each other and other companies that control motorsports entertainment facilities hosting NASCAR NEXTEL Cup Series, to illegally restrict the award of ... NASCAR NEXTEL Cup Series [races]." The complaint seeks damages and an injunction requiring NASCAR to establish a competitive bidding process for NEXTEL Cup events and prohibiting further violations of the antitrust laws. Other than some vaguely conclusory allegations, the complaint fails to specify any conduct by International Speedway Corporation ("ISC") other than conducting and growing its motorsports entertainment business for the benefit of its shareholders. We believe the allegations to be without merit and intend to defend ourself vigorously. We have retained counsel and are pursuing defenses to the suit while maintaining potential counterclaim remedies available to us to recover the damages caused by the filing of the suit. The court has established a February 1, 2007, deadline for the completion of pre-trial discovery factual matters which is to be followed by discovery of expert opinion matters. Based upon the current timeline a trial on the merits of the case is scheduled for no earlier than Fall 2007. While it is premature to quantify either the likelihood or the potential magnitude of an adverse decision, the fees and expenses associated with the defense of this suit are not covered by insurance and could adversely impact our financial condition or results of operations and cash flows, even if we ultimately prevail. Further, the time devoted to this matter by management and the possible impact of litigation on business negotiations occurring prior to resolution of this matter could also adversely impact our financial condition or results of operations and cash flows. Finally, even if the direct effect of the resolution of this case does not result in a material adverse impact on us, it is possible that the resolution of this case could result in industry wide changes in the way race schedules are determined by sanctioning bodies, which could indirectly have a material adverse impact on us.

## Postponement and/or Cancellation of Major Motorsports Events

The postponement or cancellation of one or more major motorsports events could adversely impact our future operating results. A postponement or cancellation could be caused by a number of factors, including, but not limited to, inclement weather, a widespread outbreak of a severe epidemiological crisis, a general postponement or cancellation of all major sporting events in this country (as occurred following the September 11, 2001 terrorist attacks), a terrorist attack at any mass gathering or fear of such an attack, conditions resulting from the war in Iraq or other acts or prospects of war.

The following table sets forth, for each of the indicated periods, certain selected statement of operations data as a percentage of total revenues:

| | For the Year Ended November 30, | | |
|---|---|---|---|
| | **2004** | **2005** | **2006** |
| Revenues: | | | |
| Admissions, net | 34.4% | 31.7% | 29.5% |
| Motorsports related | 51.7 | 55.2 | 58.4 |
| Food, beverage and merchandise | 12.8 | 11.8 | 10.9 |
| Other | 1.1 | 1.3 | 1.2 |
| Total revenues | 100.0 | 100.0 | 100.0 |
| Expenses: | | | |
| Direct: | | | |
| Prize and point fund monies and NASCAR sanction fees | 18.4 | 18.5 | 18.9 |
| Motorsports related | 17.4 | 18.1 | 18.1 |
| Food, beverage and merchandise | 8.1 | 7.7 | 6.7 |
| General and administrative | 13.9 | 13.0 | 13.4 |
| Depreciation and amortization | 6.9 | 6.9 | 7.1 |
| Impairment of long-lived assets | - | - | 10.9 |
| Total expenses | 64.7 | 64.2 | 75.1 |
| Operating income | 35.3 | 35.8 | 24.9 |
| Interest expense, net | (2.7) | (1.0) | (0.9) |
| Equity in net income from equity investments | 0.4 | 0.5 | 0.1 |
| Loss on early redemption of debt | (0.8) | - | - |
| Income from continuing operations before income taxes | 32.2 | 35.3 | 24.1 |
| Income taxes | 12.7 | 13.8 | 9.5 |
| Income from continuing operations | 19.5 | 21.5 | 14.6 |
| (Loss) income from discontinued operations | (1.0) | - | - |
| Gain on sale of discontinued operations | 5.6 | - | - |
| Net income | 24.1% | 21.5% | 14.6% |

## Comparison of Fiscal 2006 to Fiscal 2005

The comparison of fiscal 2006 to fiscal 2005 is impacted by the following factors:

- IRL events were conducted at California and Phoenix International Raceway ("Phoenix") during fiscal 2005 while no corresponding events were conducted in fiscal 2006;
- A NASCAR Busch series event was conducted at Martinsville in fiscal 2006 while no corresponding event was conducted by us in fiscal 2005;
- A NASCAR Craftsman Truck series event was realigned from Richmond in fiscal 2005 to Talladega in fiscal 2006 resulting in a significant attendance increase for the event; and
- In fiscal 2005, we reached settlement with the CART Liquidation Trust that allowed a claim in our favor of approximately $1.8 million in the Championship Auto Racing Teams ("CART") bankruptcy.

Admissions revenue increased approximately $483,000, or 0.2 percent, in fiscal 2006 compared to fiscal 2005. Increased admissions revenue resulted from an increase in the weighted average price of tickets sold for the majority of our events and increases in attendance for events at Homestead-Miami Speedway ("Miami"), Darlington, Talladega and certain NASCAR events conducted during Speedweeks at Daytona supporting our sold out Daytona 500 are largely offset by the previously discussed absence of IRL events in the fiscal 2006 event schedules for California and Phoenix as well as decreased attendance for the Pepsi 400 weekend at Daytona and events at Michigan.

Motorsports related revenue increased approximately $57.6 million, or 14.1 percent, in fiscal 2006 compared to fiscal 2005. The increase is primarily due to television broadcast rights fees for our NASCAR NEXTEL Cup and Busch series events and, to a lesser extent, increased sponsorship, hospitality, advertising and other race related revenues. These increases are partially offset by the net decrease in revenues from non-comparable events and activities described above.

Food, beverage and merchandise revenue in fiscal 2006 is consistent with fiscal 2005. Increases in catering and concessions revenues for fiscal 2006 are largely offset by a net decrease in revenues from non-comparable events and activities described above.

Prize and point fund monies and NASCAR sanction fees increased approximately $14.4 million, or 10.5 percent, in fiscal 2006, as compared to fiscal 2005. The increase is primarily attributable to the increase in television broadcast rights fees for comparable NASCAR NEXTEL Cup and Busch series events held at our facilities as standard NASCAR sanctioning agreements require that a specified percentage of television broadcast rights fees be paid to competitors. The addition of the NASCAR Busch Series event at Martinsville in fiscal 2006 also contributed to the current year increase.

Motorsports related expenses increased approximately $10.1 million, or 7.5 percent, in fiscal 2006 compared to fiscal 2005. The increase is primarily related to increased operating expenses for comparable events, MRN operating expenses supporting additional revenue growth, certain consumer marketing and sales initiatives, and a net increase in a variety of other costs. These increases are partially offset by event expenses related to the Phoenix and California IRL events that were held in 2005, but not in 2006, and other non-comparable events and activities year over year. Motorsports related expenses as a percentage of combined admissions and motorsports related revenue decreased from approximately 20.9 percent in fiscal 2005 to approximately 20.6 percent for fiscal 2006. The decrease is primarily attributable to increased television broadcast rights fees partially offset by the previously discussed expense increases.

Food, beverage and merchandise expense decreased $3.6 million, or 6.4 percent, during fiscal 2006 as compared to fiscal 2005. The decrease is primarily attributable to margin improvement on certain catering and concession sales, operational cost containment, variable costs associated with decreased attendance at certain events, a decrease in merchandise inventory write-downs in 2006 as compared to 2005 and inventory donated to hurricane relief efforts in 2005. Food, beverage and merchandise expense as a percentage of food, beverage and merchandise revenue decreased from approximately 65.1 percent in fiscal 2005 to approximately 60.9 percent for 2006. This decrease is attributable to the previously discussed margin improvement and cost containment.

General and administrative expenses increased approximately $10.5 million, or 10.9 percent, during fiscal 2006 as compared to fiscal 2005. These increases are primarily related to legal fees, certain expenses paid in connection with our development of a commercial mixed-use entertainment and shopping complex in Daytona Beach, Florida, and a net increase in certain costs related to the growth of our core business, partially offset by certain state taxes and non-recurring charges in the prior year. The comparison of fiscal 2006 to fiscal 2005 general and administrative expenses is also impacted by the fiscal 2005 recovery of $1.8 million of previously recorded bad debt expense related to our claim against CART (see the discussion of general and administrative expenses under "Comparison of Fiscal 2005 to Fiscal 2004"). General and administrative expenses as a percentage of total revenues increased slightly from approximately 13.0 percent in fiscal 2005 to 13.3 percent for fiscal 2006 primarily due to the previously noted net increase in general and administrative expenses largely offset by the increase in television broadcast rights fees.

Depreciation and amortization expense increased approximately $5.9 million, or 11.7 percent, during fiscal 2006 as compared to fiscal 2005. The increase was primarily attributable to certain retail technology projects, the Miami and Phoenix suite and grandstand additions, the Michigan and Daytona renovations, and a variety of other ongoing capital improvements.

We recently announced our intention to discontinue our speedway development efforts on Staten Island which resulted in a non-cash, pre-tax charge for the impairment of long-lived assets of approximately $84.7 million, or $1.01 per diluted share, in the fourth quarter of fiscal 2006 (see "Future Liquidity"). To a much lesser extent, certain other asset impairments also contributed to the charge.

Interest income increased by approximately $452,000, or 9.3 percent, during fiscal 2006 as compared to fiscal 2005. The increase was primarily due to higher yield on short-term investments in the current periods partially offset by lower outstanding cash and short term investment balances.

Interest expense decreased approximately $344,000, or 2.7 percent, during fiscal 2006 compared to fiscal 2005. The decrease is primarily due to an increase in capitalized interest, primarily related to land, land improvement and development costs for the Staten Island project and, to a lesser extent, certain other construction projects as well as lower fees related to our new credit facility.

Equity in net income from equity investments represents our pro rata share of the current income and losses from our 37.5 percent equity investment in Raceway Associates and our 50.0 percent equity investment in SMISC. Raceway Associates owns and operates Chicagoland Speedway and Route 66 raceway. SMISC owns and operate Motorsports Authentics, which is a leader in design, promotion, marketing, and distribution of motorsports licensed merchandise.

Our effective tax rate increased from 39.0 percent to 39.2 percent during fiscal 2006 compared to fiscal 2005. This increase is primarily a result of certain state tax implications relating to the aforementioned impairment of long-lived assets. The increase is partially offset by one time benefits relating to discrete items in the second fiscal quarter of 2006, including the implementation of certain restructuring initiatives, the finalization of certain state tax matters and deposits made during fiscal 2005 and 2006 with the Internal Revenue Service (the "Service") to stop the accrual of interest on contested items in our ongoing federal tax examination. See "Future Liquidity" for further discussion regarding the examination of our federal income tax returns.

As a result of the foregoing, our income from continuing operations decreased from approximately $159.1 million to approximately $117.0 million, or 26.5 percent, during fiscal 2006, as compared to the same period of the prior year.

The operations of Nazareth are presented as discontinued operations, net of tax, for all periods presented in accordance with SFAS No. 144. In fiscal 2005, discontinued operations include a $471,000 after-tax non-cash gain related to the decision made in the fourth quarter to relocate and use certain grandstand assets from Nazareth to Darlington, which had previously been written off.

As a result of the foregoing, our net income decreased approximately $42.6 million, or $0.80 per diluted share, for fiscal 2006 compared to fiscal 2005.

## Comparison of Fiscal 2005 to Fiscal 2004

The comparison of fiscal 2005 to fiscal 2004 is impacted by the following factors:

- In July 2004, we acquired the assets and assumed the operations and certain liabilities of Martinsville. The timing of the acquisition in fiscal 2004 resulted in an incremental NASCAR NEXTEL Cup and Craftsman Truck series event during fiscal 2005;
- During fiscal 2004, we sold the assets and operations of North Carolina and made a decision to pursue the sale of Nazareth due to the realignment of Nazareth's events to our Watkins Glen facility starting with the 2005 event season. Accordingly, the results of operations for North Carolina and Nazareth are recorded as discontinued operations for all periods presented in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". Watkins Glen hosted a NASCAR Busch Series event and an IRL event included in our continuing operations during fiscal year 2005, while the corresponding events held at Nazareth during the prior fiscal year are recorded as part of discontinued operations;
- As part of NASCAR's fiscal 2005 event date realignments, a NASCAR NEXTEL Cup and Busch series weekend historically hosted by Darlington was realigned to Phoenix;
- Speedweeks at Daytona was highlighted by the debut of the facility's previously discussed newly renovated infield;
- In fiscal 2005, we reached settlement with the CART Liquidation Trust that allowed a claim in our favor of $1.8 million in the CART bankruptcy; and
- In fiscal 2004, we refinanced our outstanding $225.0 million senior notes originally due in October 2004 and paid a redemption premium on the previously outstanding senior notes.

Admissions revenue increased approximately $12.2 million, or 5.5 percent, in fiscal 2005 compared to fiscal 2004. The increase is primarily due to:

- The previously discussed timing of the acquisition of Martinsville;
- Realignment of events to Watkins Glen;
- The net impact of the realignment of events to Phoenix from Darlington;
- Increased attendance for the NASCAR events conducted during Speedweeks at Daytona supporting our sold out Daytona 500;
- Rescheduling of the NASCAR Craftsman Truck Series event at Michigan from the IRL weekend in fiscal 2004 to the June NASCAR NEXTEL Cup weekend in fiscal 2005, resulting in increased attendance and weighted average ticket price; and
- Increased attendance for the remaining Darlington NASCAR weekend.

These increases are partially offset by certain admissions decreases including attendance for the California NASCAR NEXTEL Cup and Busch series events conducted in the first quarter of fiscal 2005.

Motorsports related revenue increased approximately $73.6 million, or 22.0 percent, in fiscal 2005 compared to fiscal 2004. The increase is primarily due to increased television broadcast rights fees, sponsorship, hospitality and other race related revenues for comparable NASCAR NEXTEL Cup weekends hosted at our facilities as well the timing of the acquisition of Martinsville and the realignment of events to Watkins Glen. The net impact of realignment of events to Phoenix from Darlington also contributed to the current year increase.

Food, beverage and merchandise revenue increased approximately $4.0 million, or 4.8 percent, in fiscal 2005 compared to fiscal 2004. The increase is primarily due to catering, merchandise and concession operations for comparable NASCAR NEXTEL Cup weekends, the net impact of realignment of events to Phoenix from Darlington, the timing of the acquisition of Martinsville and higher revenues resulting from increased attendance, hospitality units and additional points of sale in the newly renovated infield for events during Speedweeks at Daytona. These increases are partially offset by decreases primarily related to our Americrown subsidiary performing services at non-ISC venues in fiscal 2004.

Prize and point fund monies and NASCAR sanction fees increased approximately $17.5 million, or 14.7 percent, in fiscal 2005, as compared to fiscal 2004. The increase is primarily attributable to the increase in television broadcast rights fees for comparable NASCAR NEXTEL Cup and Busch series events held at our facilities as standard NASCAR sanctioning agreements require that a specified percentage of television broadcast rights fees be paid to competitors. The previously discussed realignment of the NASCAR Busch Series event to Watkins Glen also contributed to the increase, as well as the timing of the acquisition of Martinsville.

Motorsports related expenses increased approximately $21.3 million, or 18.9 percent, in fiscal 2005 compared to fiscal 2004. The increase is primarily related to increased operating expenses for comparable events during the periods, including operating expenses associated with the previously discussed Daytona infield renovation, certain strategic consumer and corporate marketing initiatives and services donated to hurricane relief efforts. Increases during fiscal 2005 also included the realignment of events to Watkins Glen, the net impact of realignment of events to Phoenix from Darlington and the timing of the acquisition of Martinsville. Motorsports related expenses as a percentage of combined admissions and motorsports related revenue increased to approximately 20.9 percent for fiscal 2005, as compared to 20.3 percent for fiscal 2004, primarily due to the previously discussed expenses as well as the expenses and the sanction fee for the realigned Watkins Glen IRL event. These increases are partially offset by increased revenues from the television broadcast rights fees and the timing of the Martinsville acquisition.

Food, beverage and merchandise expense increased $4.5 million, or 8.6 percent, during fiscal 2005 as compared to fiscal 2004. The increase is primarily attributable to event related costs, including increases associated with the additional events at Martinsville and the realignment of events to Phoenix from Darlington, certain merchandise inventory writedowns and inventory donated to hurricane relief efforts. These increases are partially offset by services at non-ISC venues in fiscal 2004. Food, beverage and merchandise expense as a percentage of food, beverage merchandise revenue increased to approximately 65.1 percent for fiscal 2005 as compared to 62.8 percent for fiscal 2004. The increases are primarily related to previously discussed inventory writedowns, increased operating and selling costs associated with an expanded merchandising strategy implemented in late-fiscal 2004 and donated merchandise. Also contributing to the increase for fiscal 2005 is the lower margin upscale catering cuisine offered in the new NEXTEL FANZONE and Daytona 500 Club during Speedweeks. These increases are partially offset by our Americrown subsidiary performing lower margin services at non-ISC venues in fiscal year 2004 and the realignment of events to Phoenix from Darlington.

General and administrative expenses increased approximately $5.7 million, or 6.3 percent, during fiscal 2005 as compared to fiscal 2004. The increases are primarily related to a net increase in certain costs related to the growth of our core business, expenses associated with the timing of the acquisition of Martinsville, hurricane repair costs associated with storms in late fiscal 2004 and a non-cash charge associated with certain asset replacements at Richmond. These increases are partially offset by the recovery of a portion of the previously recorded bad debt expense related to our claim against CART, non-cash charges associated with the net book value of certain undepreciated assets removed during the renovation of Daytona's infield and Michigan's frontstretch during fiscal 2004, and a decrease in professional fees and strategic development expenses. During fiscal 2005, we reached settlement with the CART Liquidation Trust that allowed a claim in our favor of $1.8 million in the CART bankruptcy. The claim was based on the failure to return the sanction fee paid to CART, less allowable expenses, for the 2003 event scheduled in California that was canceled because of the state of emergency due to wildfires in Southern California at the time. The U.S. Bankruptcy Court, Southern District of Indiana, approved the good faith settlement at a hearing in May, and we recovered the full $1.8 million of the allowed claim. Accordingly, we recorded the $1.8 million recovery as a reduction of bad debt expense during fiscal 2005. General and administrative expenses as a percentage of total revenues decreased from approximately 13.9 percent to 13.0 percent primarily due to increased television broadcast revenues, the recovery in the CART settlement, decreases in professional and strategic development expenses, increases in revenues for Speedweeks at Daytona and the previously discussed incremental Martinsville events. The decreases are partially offset by previously noted net increases in general and administrative expenses.

Depreciation and amortization expense increased approximately $6.5 million, or 14.5 percent, during fiscal 2005 as compared to fiscal 2004. The increase was primarily attributable to the Daytona infield renovation project, certain retail technology projects, the Michigan front stretch reconfiguration project, the acquisition of Martinsville, and other ongoing capital spending.

Interest income increased by approximately $807,000, or 19.9 percent, during fiscal 2005 as compared to fiscal 2004. These increases were primarily due to higher yield on short-term investments in the current periods partially offset by lower outstanding cash and short term investment balances.

Interest expense decreased approximately $9.0 million, or 41.6 percent, during fiscal 2005 compared to fiscal 2004. An increase in capitalized interest, primarily related to land purchased for the proposed construction of a speedway in Staten Island, New York and, to a lesser extent, certain other construction projects contributed to the decrease in interest expense. Also contributing to the decrease in fiscal 2005 is our May 28, 2004, refinancing of $225.0 million 7.9 percent senior notes issued in October 1999 and due October 15, 2004, ("1999 Senior Notes") with $150.0 million 4.2 percent senior notes due 2009, and $150.0 million 5.4 percent senior notes due

2014 (collectively the "2004 Senior Notes") issued on April 23, 2004. To a lesser extent, the incremental interest on the 1999 Senior Notes from April 23, 2004 to May 28, 2004, contributed to lower interest expense in fiscal 2005.

Equity in net income from equity investments represents our pro rata share of the current income from our 37.5 percent equity investment in Raceway Associates and our 50.0 percent equity investment in Motorsports Authentics. Raceway Associates owns and operates Chicagoland Speedway and Route 66 Raceway. Motorsports Authentics is the leader in design, promotion, marketing and distribution of motorsports licensed merchandise.

Our effective tax rate decreased from 39.4 percent to 39.0 percent during fiscal 2005 compared to fiscal 2004. This decrease is primarily a result of deposits made during fiscal 2005 with the Service to stop the accrual of interest on contested items in our ongoing federal tax examination combined with the increase in pretax income in fiscal 2005 compared to fiscal 2004. See "Future Liquidity" for further discussion regarding the examination of our federal income tax returns.

As a result of the foregoing, our income from continuing operations increased from approximately $126.3 million to approximately $159.1 million, or 26.0 percent, during fiscal 2005, as compared to the same period of the prior year.

The operations of North Carolina and Nazareth are presented as discontinued operations, net of tax, for all periods presented in accordance with SFAS No. 144. The fiscal 2004 periods include an approximately $36.3 million after-tax gain related to the sale of North Carolina's assets. Also included in fiscal 2004 is an $8.6 million after-tax, non-cash charge for impairment of long-lived assets related to the realignment of the NASCAR and IRL race event dates from Nazareth to other facilities within our portfolio beginning in fiscal 2005. In fiscal 2005, discontinued operations include a $471,000 after-tax non-cash gain related to the decision made in the fourth quarter to relocate and use certain grandstand assets from Nazareth to Darlington, which had previously been written off.

As a result of the foregoing, our net income increased approximately $3.0 million, or $0.05 per diluted share, for fiscal 2005 compared to fiscal 2004.

## Liquidity and Capital Resources

### General

We have historically generated sufficient cash flow from operations to fund our working capital needs and capital expenditures at existing facilities, as well as to pay an annual cash dividend. In addition, we have used the proceeds from offerings of our Class A Common Stock, the net proceeds from the issuance of long-term debt, borrowings under our credit facilities and state and local mechanisms to fund acquisitions and development projects. At November 30, 2006, we had cash, cash equivalents and short-term investments totaling approximately $137.7 million, $300.0 million principal amount of senior notes outstanding and a debt service funding commitment of approximately $68.4 million principal amount related to the taxable special obligation revenue ("TIF") bonds issued by the Unified Government of Wyandotte County/Kansas City, Kansas ("Unified Government").

We had working capital of approximately $7.3 million at November 30, 2006, compared to $14.9 million at November 30, 2005.

Our liquidity is primarily generated from our ongoing motorsports operations, and we expect our strong operating cash flow to continue in the future. In addition, as of November 30, 2006, we have approximately $300.0 million available to draw upon under our revolving credit facility, if needed. See "Future Liquidity" for additional disclosures relating to our credit facility and certain risks that may affect our near term operating results and liquidity.

### Cash Flows

Net cash provided by operating activities was approximately $241.4 million for fiscal 2006, compared to approximately $146.8 million for fiscal 2005. The difference between our net income of approximately $116.8 million and the approximately $241.4 million of operating cash flow was primarily attributable to:

- impairments on long-lived assets of approximately $87.1 million;
- depreciation and amortization expense of approximately $56.8 million;
- stock-based compensation of approximately $2.7 million; and
- an increase in income taxes payable of approximately $2.6 million;

These differences were partially offset by deposits with the Internal Revenue Service of approximately $13.9 million, an increase in accounts receivable of approximately $7.1 million and deferred income taxes of approximately $4.2 million.

Net cash used in investing activities was approximately $307.1 million for fiscal 2006, compared to approximately $166.2 million for fiscal 2005. Our use of cash for investing activities reflects purchases of short-term investments of approximately $150.7 million, approximately $124.6 million for our equity investment in SMISC in connection with its acquisition of Action, approximately $110.4 million in capital expenditures and approximately $3.0 million in advances to affiliates. This use of cash is partially offset by approximately $80.9 million in proceeds from the sale of short-term investments.

Net cash used in financing activities was approximately $5.4 million for fiscal 2006, compared to approximately $10.8 million for fiscal 2005. Cash used in financing activities consists primarily of cash dividends paid totaling approximately $4.3 million. We also borrowed and repaid approximately $80.0 million under our credit facility during this period.

### Capital Expenditures

Capital expenditures totaled approximately $110.4 million for fiscal 2006, compared to approximately $248.9 million for fiscal 2005. The capital expenditures for fiscal 2006, consisted primarily of seat, suite and club additions at Phoenix, seat additions at Darlington, capital expenditures related to the potential major speedway development in the New York City Borough of Staten Island (see "Future Liquidity"), repaving of Talladega's racing surface and the renovation and expansion of California's Midway area. The remaining capital expenditures were related to a variety of other improvements and renovations to our facilities.

At November 30, 2006, we have approximately $62.5 million in capital projects currently approved for our existing facilities. These projects include the acquisition of land and land improvements at various facilities for expansion of parking, camping capacity and other uses, seat and club additions at Richmond and a variety of other improvements and renovations to our facilities that enable us to effectively compete with other sports venues for consumer and corporate spending.

As a result of these currently approved projects and estimated additional approvals in fiscal 2007, we expect our total fiscal 2007 capital expenditures at our existing facilities will be approximately $80.0 million to $90.0 million, depending on the timing of certain projects.

We review the capital expenditure program periodically and modify it as required to meet current business needs.

## Future Liquidity

### Long-Term Obligations and Commitments

On April 23, 2004, we completed an offering of $300.0 million principal amount of unsecured senior notes in a private placement. On September 27, 2004, we completed an offer to exchange the senior notes for registered senior notes with substantially identical terms ("2004 Senior Notes"). At November 30, 2006, outstanding 2004 Senior Notes totaled approximately $300.8 million, net of unamortized discounts and premium, which is comprised of $150.0 million principal amount unsecured senior notes, which bear interest at 4.2 percent and are due April 2009, and $150.0 million principal amount unsecured senior notes, which bear interest at 5.4 percent and are due April 2014. The 2004 Senior Notes require semi-annual interest payments on April 15 and October 15 through their maturity. The 2004 Senior Notes may be redeemed in whole or in part, at our option, at any time or from time to time at redemption prices as defined in the indenture. Our subsidiaries are guarantors of the 2004 Senior Notes.

In January 1999, the Unified Government issued approximately $71.3 million in TIF bonds in connection with the financing of construction of Kansas Speedway. At November 30, 2006, outstanding TIF bonds totaled approximately $67.3 million, net of the unamortized discount, which is comprised of a $18.7 million principal amount, 6.2 percent term bond due December 1, 2017 and a $49.7 million principal amount, 6.8 percent term bond due December 1, 2027. The TIF bonds are repaid by the Unified Government with payments made in lieu of property taxes ("Funding Commitment") by our wholly-owned subsidiary, Kansas Speedway Corporation. Principal (mandatory redemption) payments per the Funding Commitment are payable by Kansas Speedway Corporation on October 1 of each year. The semi-annual interest component of the Funding Commitment is payable on April 1 and October 1 of each year. Kansas Speedway Corporation granted a mortgage and security interest in the Kansas project for its Funding Commitment obligation.

In October 2002, the Unified Government issued subordinate sales tax special obligation revenue bonds ("2002 STAR Bonds") totaling approximately $6.3 million to reimburse us for certain construction already completed on the second phase of the Kansas Speedway project and to fund certain additional construction. The 2002 STAR Bonds, which require annual debt service payments and are due December 1, 2022, will be retired with state and local taxes generated within the Kansas Speedway's boundaries and are not our obligation. Kansas Speedway Corporation has agreed to guarantee the payment of principal, any required premium and interest on the 2002 STAR Bonds. At November 30, 2006, the Unified Government had approximately $4.3 million in 2002 STAR Bonds outstanding. Under a keepwell agreement, we have agreed to provide financial assistance to Kansas Speedway Corporation, if necessary, to support its guarantee of the 2002 STAR Bonds.

On June 16, 2006, we entered into a $300.0 million revolving credit facility ("2006 Credit Facility"). The 2006 Credit Facility contains a feature that allows us to increase the credit facility to a total of $500.0 million, subject to certain conditions. Upon execution of the 2006 Credit Facility, we terminated our then existing $300.0 million credit facility. The 2006 Credit Facility is scheduled to mature in June 2011, and accrues interest at LIBOR plus 30.0 - 80.0 basis points, based on our highest debt rating as determined by specified rating agencies. At November 30, 2006, we did not have any borrowings outstanding under the Credit Facility.

We are a member of Motorsports Alliance (owned 50.0 percent by us and 50.0 percent by IMS), which owns 75.0 percent of Raceway Associates. Raceway Associates owns and operates Chicagoland Speedway and Route 66 Raceway. Raceway Associates has a term loan arrangement, which requires quarterly principal and interest payments and matures November 15, 2012, and a $15.0 million secured revolving credit facility, which matures in September 2008. At November 30, 2006, Raceway Associates had approximately $28.4 million outstanding under its term loan and no borrowings outstanding under its existing credit facility. Under a keepwell agreement, the members of Motorsports Alliance have agreed to provide financial assistance to Raceway Associates, if necessary, on a pro rata basis to support performance under its term loan and credit facility.

We have guaranteed minimum royalty payments under certain agreements through December 2015, with a remaining maximum exposure at November 30, 2006, of approximately $12.5 million.

At November 30, 2006 we had contractual cash obligations to repay debt and to make payments under operating agreements, leases and commercial commitments in the form of guarantees and unused lines of credit.

Payments due under these long-term obligations are as follows as of November 30, 2006 (in thousands):

| | | Obligations Due by Period | | | |
|---|---|---|---|---|---|
| | Total | Less Than One Year | 2-3 Years | 4-5 Years | After 5 Years |
| Long-term debt | $ 368,355 | $ 770 | $ 151,990 | $ 2,675 | $ 212,920 |
| Motorsports entertainment facility operating agreement | 38,100 | 2,220 | 4,440 | 4,440 | 27,000 |
| Other operating leases | 47,233 | 3,945 | 4,453 | 2,465 | 36,370 |
| Total Contractual Cash Obligations | $ 453,688 | $ 6,935 | $ 160,883 | $ 9,580 | $ 276,290 |

Commercial commitment expirations are as follows as of November 30, 2006 (in thousands):

| | | Commitment Expiration by Period | | | |
|---|---|---|---|---|---|
| | Total | Less Than One Year | 2-3 Years | 4-5 Years | After 5 Years |
| Guarantees | $ 16,770 | $ 515 | $ 905 | $ 595 | $ 14,755 |
| Keepwell agreements | 14,200 | 2,400 | 4,800 | 4,800 | 2,200 |
| Unused credit facilities | 302,082 | 2,082 | - | 300,000 | - |
| Total Commercial Commitments | $ 333,052 | $ 4,997 | $ 5,705 | $ 305,395 | $ 16,955 |

*Raceway Associates Acquistion*

In November 2006, we announced that, through a wholly-owned subsidiary, we had entered into a purchase agreement with IMS to indirectly acquire an additional 37.5 percent interest in Raceway Associates. As a result of the transaction we will own 100.0 percent of Motorsports Alliance, which owns 75.0 percent of Raceway Associates. Concurrent with the IMS transaction, we also exercised our right to purchase the minority partners' remaining 25.0 percent interest in Raceway Associates pursuant to the 1999 Raceway Associates formation agreement.

All of the above transactions closed on February 2, 2007, for a total purchase price of approximately $102.4 million which was paid utilizing existing cash on hand and approximately $62.0 million in borrowings on our 2006 Credit Facility. In connection with these transactions, we acquired Raceway Associates net assets, including approximately $39.7 million in third party debt. These transactions will be accounted for as a business combination.

*Northwest US Speedway Development*

In light of NASCAR's publicly announced position regarding additional potential realignment of the NASCAR NEXTEL Cup Series schedule, we also believe there are potential development opportunities in other new, underserved markets across the country. As such, we have been and are exploring opportunities for public/private partnerships targeted to develop one or more motorsports entertainment facilities in new markets, including the Northwest US. In June 2005, we announced we had identified a preferred site for the development of a motorsports entertainment facility in Kitsap County, Washington, approximately 20 miles outside of Seattle, Washington, the country's 13th largest media market. We have secured an option to purchase approximately 950 acres for the potential future home of a professional motorsports and entertainment and family recreation facility including a closed-course speedway, grandstands and other seating with capacity for at least 83,000 attendees, which could open in 2011. We are conducting ongoing project due diligence to review environmental impacts including traffic, noise, air quality, and others, if any.

State legislation is required to create a Public Speedway Authority ("PSA") and authorize the issuance of general obligation bonds to help finance the project. These bonds would be repaid through a sales tax credit issued by the state to the PSA, and from a local tax on the facility. The legislation would require us to invest a minimum of approximately $180.0 million in the project, among other obligations. We expect to introduce the required legislation into the 2007 Session of the Washington Legislature in hopes of successfully completing this stage of the process. While we remain optimistic about our ability to construct a motorsports and multi-use recreational facility in this region of the country, it is too early to tell if the necessary public participation will materialize or if it will be sufficient to allow for the development of such a facility.

*New York Metropolitan Speedway Development*

During fiscal 1999, we announced our intention to search for a site for a major motorsports entertainment facility in the New York metropolitan area. Our efforts included the evaluation of many different locations. Most recently, we identified a combination of land parcels in the New York City borough of Staten Island aggregating approximately 676 acres that we targeted for the development of a major motorsports entertainment and retail development project. Our majority-owned subsidiary, 380 Development, LLC ("380 Development"), purchased the total 676 acres for approximately $110.4 million in early fiscal 2005.

In December 2006, we announced our decision to discontinue pursuit of a speedway development on Staten Island. The decision was driven by a variety of factors, including: (1) the inability to secure the critical local political support that is necessary to secure the required land-use change approvals for a speedway development; (2) even if we had secured the necessary political support, it became apparent that we would have been faced with unacceptable approval requirements, including operational restrictions that would have made the facility difficult to operate and a significant challenge to market; and (3) the increased risk that these unacceptable approval requirements could result in higher construction spending and annual operating costs, which would have a significant negative impact on the financial model for the speedway development.

Our operating and development agreements with The Related Companies have been terminated, the note payable to us from Related which was secured by a pledge of Related's 12.4 percent proportionate minority interest in 380 Development has been cancelled and the minority interest surrendered to us.

The decision to discontinue our speedway development efforts on Staten Island, in our fiscal 2006 fourth quarter, resulted in a non-cash, pre-tax charge in our results of approximately $84.7 million, or $1.01 per diluted share after-tax. Accounting rules generally accepted in the US require that the property be valued at its current fair value, which is estimated by an independent appraisal at approximately $65.0 million. Prior to the write-off, we had capitalized spending of approximately $150.0 million through November 30, 2006, including: (1) $123.0 million for land and related improvements, (2) $11.0 million for costs related solely to the development of the speedway, and (3) $16.0 million for capitalized interest and property taxes. The value of the property is expected to be in excess of $100.0 million once it is filled and ready for sale. In September 2006, as a result of communications from the New York State Department of Environmental Conservation ("DEC") and the New York City Department of Sanitation ("DOS"), which provide oversight for the fill operations at the site, we ceased fill operations while we address certain issues they raised. We continue to work with these agencies to resolve these issues and anticipate being able to resume fill operations in the coming months.

We have begun to research and develop market demand studies to assist in the evaluation of various alternative strategies for the Staten Island acreage, including potentially selling the property in whole or in parts, or developing the property with a third party for some other use. Given that the property is the largest undeveloped acreage of land in the five boroughs of New York City, we believe it will be attractive to a wide range of developers and users. The site is currently zoned as-of-right for industrial use and could provide ease of access through a deep-water dock located on site. Also, the property can be easily accessed from the local highway system.

Although we are disappointed that our speedway development efforts were unsuccessful on Staten Island, we remain committed to pursuing the development of a motorsports entertainment facility in the region. Due to the considerable interest in and support for NASCAR racing in the metro New York market, we believe a premier motorsports entertainment facility will have a significant positive impact on the area's economy and prove to be a long-term community asset.

*Joint Venture Development*

In May 2005, we announced we are pursuing a joint venture for the development of a commercial mixed-use entertainment shopping center project on approximately 71 acres we currently own. Located directly across International Speedway Boulevard (U.S. Highway 92) from our Daytona motorsports entertainment facility, the acreage currently includes several office buildings that house our corporate headquarters and certain related operations of ours and NASCAR. The total project, which will be developed by us and the joint venture, is anticipated to be comprised of retail, entertainment, office and residential components designed to complement surrounding commercial developments. We are currently negotiating a joint venture agreement with a developer and are also completing our detailed feasibility study in which a number of key issues will be addressed. Provided we are able to enter into an agreement with this developer and the results of the feasibility study are favorable and appropriate leasing considerations are attained, we expect to move forward with the project within the next three months. If we proceed with the project it is expected that certain of our existing corporate headquarter offices and other buildings, which are not currently fully depreciated, will be razed during the next 6 to 24 months resulting in a yet to be determined, non-cash charge to earnings.

*Internal Revenue Service Examination*

The Service is currently performing a periodic examination of our federal income tax returns for the years ended November 30, 1999 through 2005 and has challenged the tax depreciation treatment of a significant portion of our motorsports entertainment facility assets. Through November 30, 2006, we have received reports from the Service requesting downward adjustments to our tax depreciation expense for the fiscal years ended November 30, 1999 through 2004, which could potentially result in the reclassification of approximately $94.5 million of income taxes from deferred to current. Including related interest, the combined after-tax cash flow impact of these requested adjustments is approximately $110.8 million. In order to prevent incurring additional interest, we have deposited approximately $110.8 million, with the Service. In December 2006, we received a report from the Service with respect to our fiscal year ended November 30, 2005, which could potentially result in the the reclassification of approximately $6.6 million of income taxes from deferred to current. Accordingly, in order to prevent incurring additional interest, we deposited an additional $7.1 million with the Service in January 2007. Additional adjustments to our tax depreciation expense are expected to be requested later by the Service for the fiscal year ended November 30, 2006. Including related interest, we estimate the combined after-tax cash flow impact of the additional federal tax adjustments for fiscal 2006, and related state tax revisions for all periods, to range between $30.0 million and $40.0 million at November 30, 2006. Our deposits are not a payment of tax, and we will receive accrued interest on any of these funds ultimately returned to us. At November 30, 2006, the approximately $110.8 million of previously discussed deposits with the Service are classified as long-term assets in our consolidated financial statements. We believe that our application of the federal income tax regulations in question, which have been applied consistently since being adopted in 1986 and have been subjected to previous IRS audits, is appropriate, and we intend to vigorously defend the merits of our position. Once commenced by the Service, the administrative appeals process is expected to take six to fifteen months to complete. If our appeal is not resolved satisfactorily, we will evaluate all of our options, including litigation. It is important to note the Federal American Jobs Creation Act of 2004 legislation, which was effective on October 23, 2004, provides owners of motorsports entertainment facility assets a seven-year recovery period for tax depreciation purposes. The motorsports provision applies prospectively from the date of enactment through January 1, 2008. We and others in the industry are pursuing a seven-year prospective tax depreciation provision. In accordance with SFAS No. 109 "Accounting for Income Taxes," we have accrued a deferred tax liability based on the differences between our financial reporting and tax bases of such assets in our consolidated balance sheet as of November 30, 2006. While an adverse resolution of these matters could result in a material negative impact on cash flow, including payment of taxes from amounts currently on deposit with the Service, we believe that we have provided adequate reserves related to these matters including interest charges through November 30, 2006 totaling approximately $12.6 million, and, as a result, do not expect that such an outcome would have a material adverse effect on results of operations.

*Future Cash Flows*

Our cash flow from operations consists primarily of ticket, hospitality, merchandise, catering and concession sales and contracted revenues arising from television broadcast rights and marketing partnerships. We believe that cash flows from operations, along with existing cash, cash equivalents, short-term investments and available borrowings under our 2006 Credit Facility, will be sufficient to fund:

- operations and approved capital projects at existing facilities for the foreseeable future;
- payments required in connection with the purchase of additional interests in Raceway Associates;
- payments required in connection with the funding of the Unified Government's debt service requirements related to the TIF bonds;
- payments related to our existing debt service commitments;
- any potential payments associated with our keepwell agreements;
- any payment of tax that may ultimately occur as a result of the examination by the Service; and
- the fees and expenses incurred in connection with the current legal proceeding discussed in "Future Trends in Operating Results."

We intend to pursue further development and/or acquisition opportunities (including the possible development of new motorsports entertainment facilities, such as the New York metropolitan area, the Northwest US and other areas), the timing, size and success, as well as associated potential capital commitments, of which are unknown at this time. Accordingly, a material acceleration of our growth strategy could require us to obtain additional capital through debt and/or equity financings. Although there can be no assurance, we believe that adequate debt and equity financing will be available on satisfactory terms.

While we expect our strong operating cash flow to continue in the future, our financial results depend significantly on a number of factors relating to consumer and corporate spending, including economic conditions affecting marketing dollars available from the motorsports industry's principal sponsors. Consumer and corporate spending could be adversely affected by economic, security and other lifestyle conditions resulting in lower than expected future operating cash flows. General economic conditions were significantly and negatively impacted by the September 11, 2001 terrorist attacks and the war in Iraq and could be similarly affected by any future attacks or fear of such attacks, or by conditions resulting from other acts or prospects of war. Any future attacks or wars or related threats could also increase our expenses related to insurance, security or other related matters. Also, our financial results could be adversely impacted by a widespread outbreak of a severe epidemiological crisis. The items discussed above could have a singular or compounded material adverse affect on our financial success and future cash flow.

## Recent Accounting Pronouncements

In December 2004 the FASB issued revised SFAS No. 123(R), "Share-Based Payment." SFAS No. 123(R) sets accounting requirements for "share-based" compensation to employees and requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation. SFAS No. 123(R) is effective in annual periods beginning after June 15, 2005. We adopted SFAS No. 123(R) in the first quarter of fiscal 2006, using the modified-prospective-transition method and currently disclose the pro forma effect on net income and earnings per share of the fair value recognition provisions of SFAS No. 123(R) for periods prior to adoption. Our adoption of SFAS No. 123(R) did not have a material impact on our financial position, results of operations or cash flows.

In June 2006 the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the potential impact that the adoption of this interpretation will have on its financial position and results of operations.

In June 2006 the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 06-03, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement." EITF No. 06-03 addresses the accounting for externally imposed taxes on revenue-producing transactions that take place between a seller and its customer, including, but not limited to sales, use, value added, and certain excise taxes. EITF No. 06-03 also provides guidance on the disclosure of an entity's accounting policies for presenting such taxes on a gross or net basis and the amount of such taxes reported on a gross basis. EITF No. 06-03 is effective for interim and fiscal years beginning after December 15, 2006. We are currently evaluating the potential effect that the adoption of this EITF will have on our financial statements.

In September 2006 the FASB issued SFAS No. 157, "Fair Value Measurements" which establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. SFAS No 157 applies under other accounting pronouncements that require or permit fair value measurements and, accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the potential impact that the adoption of this statement will have on our financial position and results of operations.

### *Our quarterly results are subject to seasonality and variability*

We derive most of our income from a limited number of NASCAR-sanctioned races. As a result, our business has been, and is expected to remain, highly seasonal based on the timing of major racing events. For example, one of our NASCAR NEXTEL Cup Series races is traditionally held on the Sunday preceding Labor Day. Accordingly, the revenues and expenses for that race and/or the related supporting events may be recognized in either the fiscal quarter ending August 31 or the fiscal quarter ending November 30.

Future schedule changes as determined by NASCAR or other sanctioning bodies, as well as the acquisition of additional, or divestiture of existing, motorsports entertainment facilities could impact the timing of our major events in comparison to prior or future periods.

The following table presents certain unaudited financial data for each quarter of fiscal 2005 and 2006 (in thousands, except per share amounts):

| | Fiscal Quarter Ended | | | |
|---|---|---|---|---|
| | **February 28, 2005** | **May 31, 2005** | **August 31, 2005** | **November 30, 2005** |
| Total revenue | $ 179,432 | $ 157,447 | $ 166,519 | $ 236,730 |
| Operating income | 71,847 | 46,866 | 56,019 | 90,533 |
| Income from continuing operations | 41,118 | 26,540 | 36,804 | 54,612 |
| Net income | 41,065 | 26,501 | 36,752 | 55,044 |
| Basic earnings per share | 0.77 | 0.50 | 0.69 | 1.04 |
| Diluted earnings per share | 0.77 | 0.50 | 0.69 | 1.03 |

| | Fiscal Quarter Ended | | | |
|---|---|---|---|---|
| | **February 28, 2006** | **May 31, 2006** | **August 31, 2006** | **November 30, 2006** |
| Total revenue | $ 193,934 | $ 172,083 | $ 178,892 | $ 253,460 |
| Operating income | 78,463 | 52,176 | 51,808 | 16,719 |
| Income from continuing operations | 44,131 | 30,727 | 34,299 | 7,823 |
| Net income | 44,053 | 30,687 | 34,272 | 7,792 |
| Basic earnings per share | 0.83 | 0.58 | 0.64 | 0.15 |
| Diluted earnings per share | 0.83 | 0.58 | 0.64 | 0.15 |

## Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from changes in interest rates in the normal course of business. Our interest income and expense are most sensitive to changes in the general level of U.S. interest rates and the LIBOR rate. In order to manage this exposure, we use a combination of debt instruments, including the use of derivatives in the form of interest rate swap agreements. We do not enter into any derivatives for trading purposes.

The objective of our asset management activities is to provide an adequate level of interest income and liquidity to fund operations and capital expansion, while minimizing market risk. We utilize overnight sweep accounts and short-term investments to minimize the interest rate risk. We do not believe that our interest rate risk related to our cash equivalents and short-term investments is material due to the nature of the investments.

Our objective in managing our interest rate risk on our debt is to maintain a balance of fixed and variable rate debt that will lower our overall borrowing costs within reasonable risk parameters. Interest rate swaps are used from time to time to convert a portion of our debt portfolio from a variable rate to a fixed rate or from a fixed rate to a variable rate.

The following analysis provides quantitative information regarding our exposure to interest rate risk. We utilize valuation models to evaluate the sensitivity of the fair value of financial instruments with exposure to market risk that assume instantaneous, parallel shifts in interest rate yield curves. There are certain limitations inherent in the sensitivity analyses presented, primarily due to the assumption that interest rates change instantaneously. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled.

As described in Note 7 to the consolidated financial statements, we have various debt instruments that are issued at fixed rates. These financial instruments, which have a fixed rate of interest, are exposed to fluctuations in fair value resulting from changes in market interest rates. The fair values of long-term debt are based on quoted market prices at the date of measurement. Our credit facilities approximate fair value as they bear interest rates that approximate market. At November 30, 2006, we did not have any variable debt outstanding; therefore, a hypothetical increase in interest rates by 1.0 percent would not result in an increase in our interest expense. At November 30, 2006, the fair value of our total long-term debt as determined by quotes from financial institutions was approximately $370.5 million. The potential decrease in fair value resulting from a hypothetical 10.0 percent shift in interest rates would be approximately $8.6 million at November 30, 2006.

From time to time we utilize derivative investments in the form of interest rate swaps to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. The notional amount, interest payment and maturity dates of the swaps match the terms of the debt they are intended to modify. At November 30, 2006 we did not have any interest rate swap agreements in place.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts on a net basis. However, we minimize such risk exposures for these instruments by limiting counterparties to large banks and financial institutions that meet established credit guidelines. We do not expect to incur any losses as a result of counterparty default.

## Factors That May Affect Operating Results

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can identify a forward-looking statement by our use of the words "anticipate," "estimate," "expect," "may," "believe," "objective," "projection," "forecast," "goal," and similar expressions. These forward-looking statements include our statements regarding the timing of future events, our anticipated future operations and our anticipated future financial position and cash requirements. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we do not know whether our expectations will prove correct. We disclose the important factors that could cause our actual results to differ from our expectations in cautionary statements made in this report and in other filings we have made with the Securities and Exchange Commission. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors described in filings with the Securities and Exchange Commission.

Many of these factors are beyond our ability to control or predict. We caution you not to put undue reliance on forward-looking statements or to project any future results based on such statements or on present or prior earnings levels. Additional information concerning these, or other factors, which could cause the actual results to differ materially from those in the forward-looking statements is contained from time to time in our other SEC filings. Copies of those filings are available from us and/or the SEC.