Consolidated Financial Statements

Pittsburgh Baseball Partnership
Years Ended October 31, 2008 and 2007
With Report of Independent Auditors

Ernst & Young LLP

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Contents

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Report of Independent Auditors

The Board of Directors
Pittsburgh Baseball Partnership

We have audited the accompanying consolidated balance sheets of Pittsburgh Baseball Partnership (Partnership) as of October 31, 2008 and 2007, and the related consolidated statements of operations, changes in partners' capital, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated February 27, 2009, we expressed an opinion that the 2008 financial statements fairly presented the financial position, results of operations, and cash flows of Pittsburgh Baseball Partnership in conformity with U.S. generally accepted accounting principles except for effects of adjustments, if any, as might have been determined to be necessary had we been able to examine sufficient evidence supporting the Partnership's investment in Baseball Endowment, L.P. (BELP II) at October 31, 2008. Subsequent to the issuance of our report dated February 27, 2009, we were able to obtain audit evidence to satisfy the Partnership's financial statement assertions related to BELP II. Accordingly, our present opinion on the 2008 financial statements, as presented herein, is unqualified.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pittsburgh Baseball Partnership as of October 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 12 to the combined financial statements, the Partnership adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective October 31, 2007.

Ernst & Young LLP

June 29, 2009

0906-1070120

Pittsburgh Baseball Partnership

Consolidated Balance Sheets

	October 31	
	2008	**2007**
Assets		
Current assets:		
Cash and cash equivalents	**$ 608,180**	$ 1,667,311
Major League Central Fund receivable	**34,584,688**	41,751,550
Accounts receivable	**3,746,459**	4,599,942
Prepaid and other current assets	**1,127,227**	2,750,216
Total current assets	**40,066,554**	50,769,019
Leaseholds and equipment, net	**54,334,808**	50,315,337
Franchise costs, net	**101,454,773**	101,454,773
Player contracts, net	**13,076,796**	8,168,764
Other assets	**27,757,252**	24,178,137
Total assets	**$ 236,690,183**	$ 234,886,030
Liabilities and partners' capital		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 3,189,225**	$ 5,630,704
Accrued compensation	**10,204,980**	7,481,083
Unearned revenues	**1,746,365**	2,868,646
Current portion of long-term debt	**3,873,750**	2,343,750
Total current liabilities	**19,014,320**	18,324,183
Revolving notes payable	**40,000,000**	31,500,000
Major League Baseball Credit Facility	**59,095,000**	62,968,750
Deferred compensation	**25,835,513**	21,938,650
Other long-term liabilities	**9,209,158**	9,025,183
Total liabilities	**153,153,991**	143,756,766
Total partners' capital	**83,536,192**	91,129,264
Total liabilities and partners' capital	**$ 236,690,183**	$ 234,886,030

See accompanying notes.

Pittsburgh Baseball Partnership

Consolidated Statements of Operations

	Year Ended October 31	
	2008	**2007**
Revenues		
Home game receipts	**$ 32,129,368**	$ 34,422,311
Broadcasting	**39,007,164**	40,326,222
Revenue sharing	**39,046,312**	30,302,652
Concessions	**8,283,870**	7,142,641
Ballpark signage and naming rights	**10,459,674**	10,022,326
Other revenues	**17,067,049**	16,420,174
Total revenues	**145,993,437**	138,636,326
Operating expenses		
Player salaries	**51,040,233**	50,871,186
Team operations	**12,604,510**	14,111,881
Player development	**23,182,677**	21,166,850
Broadcasting	**3,167,977**	2,746,577
Restructuring	**–**	2,475,000
Ballpark and game operations	**17,092,460**	16,060,288
Marketing, public relations, general, and administrative	**17,115,178**	15,006,990
Total operating expenses	**124,203,035**	122,438,772
Operating income	**21,790,402**	16,197,554
Other income (expense):		
Interest income	**225,998**	330,908
Interest expense	**(6,102,379)**	(5,251,096)
Loss on investment in Baseball Endowment, L.P.	**(1,448,615)**	–
Other nonoperating income	**–**	3,752,254
Income before income taxes	**14,465,406**	15,029,620
Income tax provision	**(57,157)**	(21,588)
Net income	**$ 14,408,249**	$ 15,008,032

See accompanying notes.

Pittsburgh Baseball Partnership

Consolidated Statements of Changes in Partners' Capital

Balance, October 31, 2006	$ 80,189,272
Distribution	(77,279)
Comprehensive income:	
Net income	15,008,032
Unrealized losses on derivatives designated and qualified as cash flow hedges	(790,575)
Minimum pension liability adjustment	1,067,651
Comprehensive income	15,285,108
Implementation of FASB 158	(4,267,837)
Balance, October 31, 2007	91,129,264
Distributions	**(20,442,550)**
Comprehensive income:	
Net income	**14,408,249**
Unrealized losses on derivatives designated and qualified as cash flow hedges	**(465,265)**
Change in unrecognized benefit plan obligation	**(1,093,506)**
Comprehensive income	**12,849,478**
Balance, October 31, 2008	**$ 83,536,192**

See accompanying notes.

Pittsburgh Baseball Partnership

Consolidated Statements of Cash Flows

	Year Ended October 31	
	2008	**2007**
Operating activities		
Net income	**$ 14,408,249**	$ 15,008,032
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	**12,129,596**	10,024,393
Deferred income taxes	**48,000**	25,000
Interest on deferred compensation	**690,430**	701,057
Increase in cash surrender value of life insurance policies	**(343,070)**	(3,778,166)
Gain on sale of Nationals	**–**	(3,800,000)
Loss on investment in Baseball Endowment, L.P.	**1,448,615**	
Changes in operating assets and liabilities:		
Signing bonuses paid	**(7,660,751)**	(6,821,985)
Deferred compensation	**(747,548)**	(861,917)
College Scholarship Plan	**724,578**	436,028
Major League Central Fund receivable	**2,001,529**	(5,216,911)
Accounts receivable	**853,483**	(276,474)
Prepaid and other current assets	**813,366**	714,472
Accounts payable and accrued liabilities	**(2,441,479)**	440,444
Accrued compensation	**(384,082)**	1,875,443
Unearned revenues	**(1,122,281)**	(2,465,197)
Other, net	**392,804**	(935,941)
Net cash provided by operating activities	**20,811,439**	5,068,278
Investing activities		
Expenditures for leaseholds and equipment	**(8,051,842)**	(4,415,258)
Net cash used in investing activities	**(8,051,842)**	(4,415,258)
Financing activities		
Distributions to partners	**(20,442,550)**	(77,279)
Net activity on revolving notes payable	**6,156,250**	(2,725,878)
Debt refinancing costs	**(294,051)**	–
Decrease in restricted cash	**761,623**	502,765
Net cash used in financing activities	**(13,818,728)**	(2,300,392)
Decrease in cash and cash equivalents	**(1,059,131)**	(1,647,372)
Cash and cash equivalents, beginning of year	**1,667,311**	3,314,683
Cash and cash equivalents, end of year	**$ 608,180**	$ 1,667,311
Supplemental cash flow information		
Cash paid for interest	**$ 6,020,987**	$ 4,717,688

See accompanying notes.

1. Organization and Description of the Business

Pittsburgh Baseball Partnership (PBP), a limited partnership organized under the laws of the Commonwealth of Pennsylvania, was formed by Pittsburgh Pirates Acquisition, Inc. (PPAI), the general partner, for the purpose of purchasing and, subsequently, operating the Pittsburgh Pirates National League Baseball Club (Pirates). The partnership agreement sets forth certain rights and obligations among the parties, including the transfer of any partnership interests and the repurchase of partnership interests by the partnership under certain conditions. PBP's general partner and limited partners' partnership allocation percentages are approximately 1% and 99%, respectively. The purchase was consummated on February 14, 1996 (the Acquisition). PBP, its subsidiary holdings and the partnership interests owned by PBP are included in these consolidated financial statements and collectively referred to herein as PBP or the Company. The purchase transaction included the acquisition by PBP of the existing partnership that owned the Pirates.

PBP must abide by the rules and regulations of Major League Baseball (MLB), including the related provisions of The National League of Professional Baseball Clubs governance agreements.

Reclassifications

A reclassification was made to the construction-in-progress in the 2007 accompanying financial statements to conform to 2008 presentation. This reclassification did not have a material impact on the financial statements.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared under the accrual basis of accounting.

Cash and Cash Equivalents

The Company considers all short-term investments with maturities of three months or less, when acquired, to be cash equivalents.

2. Summary of Significant Accounting Policies (continued)

Leaseholds and Equipment

Leaseholds and equipment are stated at historical cost. Expenditures for replacements and betterments are capitalized, and repairs and maintenance expenditures are expensed as incurred. In the case of disposals, the asset cost and related accumulated depreciation or amortization is removed from the accounts and the resulting gain or loss is reflected in operations.

Leasehold improvements are amortized on a straight-line basis over the related lease term. Depreciation of equipment, furniture, and fixtures is computed on a straight-line basis over the estimated useful lives of the assets, which range from five to ten years.

PBP initially contributed $40.0 million toward the cost of constructing and equipping the new ballpark. Additional contributions totaling approximately $10.0 million were made during the construction period. The total amounts contributed are included in leaseholds and equipment in the accompanying consolidated balance sheets and are depreciated on a straight-line basis over 29.5 years.

In August 1998, PBP executed a Stadium Naming Rights and Advertising Agreement with PNC Bank, which holds the naming rights for the ballpark. The ballpark is called PNC Park and the term of the agreement is through the end of the 2020 baseball season.

Player Contracts

Player contracts represent amounts paid to major and minor league players for signing bonuses, and are capitalized and amortized as player salaries and player development costs, respectively, over the contract period or length of time until the individual is eligible for free agency, whichever is longer. In the event a player is prematurely released or traded, the remaining unamortized balance is charged to operations at the time the player is released or when PBP determines the player contract no longer has any value, whichever is earlier.

On October 24, 2006, MLB and the Major League Baseball Players Association (MLBPA) agreed to a five-year labor agreement (the Agreement) that will expire December 11, 2011. The Agreement calls for increased revenue sharing over the period of the contract, the continuation of the competitive balance tax on teams with the highest payrolls, and retention of the debt service rule with modifications. The Agreement also contains other terms and provisions.

2. Summary of Significant Accounting Policies (continued)

As part of the signing bonus process for minor league players, certain players are provided with the opportunity to attend college under the league-administered College Scholarship Plan (CSP). Generally, a player may be awarded a CSP bonus which will specify a dollar amount per semester for a maximum number of semesters. Eligible expenses to be covered by the CSP bonus are tuition, books, and living expenses. There are certain rules determining when and how the awards are used and when they expire. PBP recorded expense of $724,578 and $436,028 during 2008 and 2007, respectively, and a liability of $2,149,074 and $1,624,337 as of October 31, 2008 and 2007, respectively, for this plan based on an actuarial analysis. These amounts are included in deferred compensation and player development on the balance sheet and income statement, respectively.

Intangible Assets

Franchise costs represent the excess of the purchase price over the fair value of the acquired tangible net assets related to the Acquisition. Goodwill and other intangible assets with indefinite lives, such as the franchise cost amount, are not amortized. PBP evaluated its franchise costs for impairment during 2008 and 2007 and no impairment existed. In addition, each year, PBP will evaluate its franchise costs for impairment with any resulting impairment reflected as an operating expense.

Guaranteed Player Contracts

Amounts paid or payable to players under guaranteed contracts are charged to operations in the year that the player satisfies his contractual obligation. In the event PBP releases a player with a guaranteed contract, the amount of the unearned contractual balance of that contract is charged to operations at the time the player is released. Proceeds received by PBP from disability insurance coverage PBP carries for its players reduce player salaries when received.

Deferred Compensation

PBP expenses player compensation as incurred based on the applicable terms of each player’s contract. Earned compensation to be paid in future periods is reflected in the accompanying consolidated balance sheets as deferred compensation including accrued interest.

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (Statement 157), which establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. Statement 157 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, Statement 157 does not require any new fair value measurements. Statement 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. However, FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157*, provides a one-year deferral on the effective date of Statement 157 for all nonfinancial assets and nonfinancial liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). PBP is currently evaluating the potential impact that adoption of this statement will have on its financial position and results of operations.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, an amendment of FASB Statement No. 133 (Statement 161). Statement 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. Statement 161 applies to all derivative instruments within the scope of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as well as related hedged items, bifurcated derivatives, and nonderivative instruments that are designated and qualify as hedging instruments. Entities with instruments subject to Statement 161 must provide more robust qualitative disclosures and expanded quantitative disclosures. Statement 161 is effective prospectively for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. PBP is currently evaluating the disclosure implications of adopting this statement.

MLB Revenues

The Major League Baseball Clubs (the Clubs) are participants in the revenues and expenses of the Major League Central Fund (MLCF), which is administered by the Office of the Commissioner of Baseball (Baseball). Revenues of the MLCF are primarily generated by the sale of certain national radio and television rights. The MLCF bears the costs of financing player pension costs and group insurance programs, maintaining Baseball's office, and such other purposes as may be determined by Baseball. Revenues from the MLCF are included in broadcasting revenues on the statements of operations and are recorded net of certain MLCF costs that totaled $10,995,156 and $9,999,633 in 2008 and 2007, respectively.

2. Summary of Significant Accounting Policies (continued)

PBP receives a pro rata portion of the MLCF net revenues based upon the number of clubs participating.

In September 2005, Baseball, on behalf of the Clubs, and ESPN, Inc. (ESPN) entered into an agreement for the broadcast of certain regular season games, Baseball events, and highlight shows, which commenced on November 15, 2005, and terminates after the later of the last game of the 2013 World Series or November 1, 2013. As consideration for this agreement, ESPN has agreed to pay rights fees aggregating $2.368 billion. During 2004, the separate radio broadcasting contract with ESPN (which covers only over-the-air terrestrial radio broadcasts) was extended for five additional years through 2010 and amended to (i) revert all satellite radio rights to Baseball as of the end of 2004, (ii) reduce the 2005 rights fee to $5.7 million, and (iii) beginning with 2006, increase the rights fees to $11 million per season for the remainder of the contract.

During September 2000, Fox Broadcasting Company (FOX) agreed to renew not only its existing package of telecast rights providing coverage of regular season games but also entered into a new agreement for the telecast rights previously held by the National Broadcasting Company, Inc. and ESPN (postseason) through the 2006 Season (the 2000 FOX Agreements). The 2000 Fox Agreements provided for the telecasting of a specified number of regular season games, the All-Star Game, the Division Series, the League Championship Series, and the World Series.

In June 2006, Baseball, on behalf of the Clubs, entered into a new seven-year agreement with FOX (the 2006 FOX Agreement) providing FOX the right to telecast (a) certain regular season games, (b) the All-Star Game, (c) the World Series, and (d) one of the two League Championship Series in each year through 2013. From 2007 through 2013, FOX is scheduled to pay Baseball approximately $1.8 billion for the rights granted under the 2006 FOX Agreement.

Under the FOX Agreements, if FOX is unable to broadcast any games due to an event beyond its control, they could receive a credit from Baseball against any rights fees which would have been paid for such broadcast. Such credit would be based on a scheduled amount, and in the case of a baseball work stoppage, FOX could be entitled to an additional credit if an arbitrator determined that there were additional costs or lost revenues incurred by FOX. In addition to these “lost games,” there are a certain minimum number of postseason games that must be made available. Failure to meet these minimums under the 2000 FOX Agreements resulted in a credit. For the fiscal year ended October 31, 2006, the amount of such “credits” was $40.0 million, which FOX deducted from its final 2006 payment. No such credits are yet due on the new FOX agreement, for which 2007 was the first year.

2. Summary of Significant Accounting Policies (continued)

In April 2005, Baseball entered into an amended agreement with Turner Broadcasting System, Inc. (TBS) that provided for the telecasting of Atlanta Braves games outside of their home television territory, as defined, through the 2012 season. Pursuant to this agreement, Baseball was to receive aggregate guaranteed fees of approximately $409 million for the 2005 through 2012 seasons. This agreement was amended in 2006 to provide for a termination at the end of the 2007 season. The agreement granted TBS rights to telecast nationally up to 70 regular season Atlanta Braves baseball games in 2007. TBS paid Baseball $65.9 million in 2007 for the rights to telecast such games. This amended agreement terminated with the end of the 2007 regular season.

As of November 1, 2006, Baseball, on behalf of the Clubs, entered into a new seven-year agreement (2007 – 2013) with TBS providing TBS the right to telecast (a) certain regular season games (beginning in 2008), (b) all Division Series games, (c) all regular season tiebreaker games, (d) the All-Star Game Selection Show, and (e) one of the two League Championship Series (the 2006 TBS Agreement). From 2007 through 2013, TBS is scheduled to pay Baseball approximately $1.04 billion for the rights granted under the 2006 TBS Agreement.

Under the terms of the ESPN and TBS agreements, if they are unable to broadcast any games as a result of a baseball work stoppage, they may be entitled to a credit against rights fees payable based on the terms as stipulated in the respective agreements.

Baseball on behalf of the Clubs has also entered into various agreements with providers of direct broadcast satellite, digital cable, and satellite radio.

Through Major League Baseball Properties (MLBP), the Clubs also receive royalties related to national licensing for MLB merchandise and novelties and corporate sponsorships. In connection with the Agreement between the Clubs and MLBPA, the Clubs agreed to a revenue sharing plan. The estimated amounts earned by the Pirates for fiscal 2008 and 2007 were $39.0 million and $30.6 million, respectively, and has been recognized as revenue in the accompanying consolidated statements of operations. To the extent the actual amount received, upon finalization, for fiscal 2008 is different than $39.0 million, an adjustment will be recorded in 2009. An adjustment totaling $1.6 million was recorded in 2008 related to the finalization of revenue sharing amounts for prior seasons.

2. Summary of Significant Accounting Policies (continued)

Included in other operating income is a $2.0 and $1.6 million cash distribution from MLB Advanced Media, L.P as of October 31, 2008 and 2007, respectively.

Unearned Revenues

Unearned revenues consist primarily of liabilities for canceled games and rainouts subject to refund, deposits received on luxury boxes and suites in PNC Park, amounts received under contracts covering future advertising and stadium signage, and amounts received for tickets for the 2009 season.

Income Taxes

PBP was organized pursuant to the provisions of the Uniform Limited Partnership Law of the Commonwealth of Pennsylvania. Accordingly, no tax provision for PBP's operations has been made for federal and state income taxes since all income or losses are includable in the income tax returns of the respective partners, based on ownership units, in accordance with the terms of the partnership agreement.

In connection with PBP's acquisition of the existing partnership that owned the Pirates (see Note 1), PBP acquired the general partner, which is a corporation. In addition, a new corporation (which is owned by PBP and certain of PBP's limited partners) was established to acquire the general partner of the existing partnership. The general partner of the existing partnership had certain deferred taxes and net operating loss carryforwards (NOLs). Therefore, deferred taxes and future tax provisions (expenses), if applicable, have been and will be recognized in PBP's consolidated financial statements for these corporate entities.

Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used by PBP in estimating the fair value disclosures for financial instruments:

> *Cash and cash equivalents*: The carrying amounts approximate fair value due to these assets' credit quality and the short-term maturity of those instruments.

2. Summary of Significant Accounting Policies (continued)

Long-term debt: The fair values and carrying amounts of PBP's long-term debt are deemed to be approximately equivalent, as they bear interest at floating rates which are based upon current market rates.

Interest rate swaps: The Company utilizes interest rate swap agreements to reduce the potential impact of increases in interest rates on floating-rate, long-term debt. At October 31, 2008 and 2007, the Company had interest rate swaps outstanding that effectively convert a notional amount of $75 million from floating rates to fixed rates. The agreements outstanding at October 31, 2008 and 2007, mature from July 2009 to July 2015. The Company would have paid $0.5 million and received $0 to settle its interest rate swap agreements at October 31, 2008 and 2007, respectively, which represents the fair value of these agreements. This amount is recorded as a liability with a corresponding effect to accumulated other comprehensive deficit in the accompanying consolidated balance sheets at October 31, 2008 and 2007. At October 31, 2008 and 2007, $(0.5) million and $(0) was recorded in accumulated other comprehensive income/(deficit), respectively. Due to the adoption of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, effective November 1, 2000, the carrying value equals the fair value for these contracts at October 31, 2008 and 2007. Fair value was estimated based on the mark-to-market value of the contracts, which closely approximates the amount the Company could receive or pay to terminate the agreements at year-end.

Use of 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 and 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. Actual results could differ from those estimates.

3. Home Game Receipts

Home game receipts represent net amounts collected for home games and consist of the following:

	Year Ended October 31	
	2008	**2007**
Gross revenues	**$ 34,212,190**	$ 36,810,004
City amusement tax/Sports and Exhibition Authority surcharge	**(1,644,223)**	(1,851,460)
League share	**(438,599)**	(536,233)
	$ 32,129,368	$ 34,422,311

4. Broadcasting

Broadcasting represents amounts received under separate agreements for broadcasting of major league baseball games as follows:

	Year Ended October 31	
	2008	**2007**
Net MLCF revenues	**$ 20,306,730**	$ 23,863,062
Local broadcasts	**18,700,434**	16,463,160
	$ 39,007,164	$ 40,326,222

5. Concessions

PBP maintains separate agreements with ARAMARK and Levy Restaurants for food and beverage sales at the ballpark. Pursuant to their respective agreements, PBP receives commissions based on total food and beverage sales for home games played. PBP also receives separately a commission for the sales of novelties by ARAMARK. Concession revenues consist of the following:

	Year Ended October 31	
	2008	**2007**
Food and beverage commissions	**$ 7,497,096**	$ 6,489,196
Novelty commissions	**786,774**	653,445
	$ 8,283,870	$ 7,142,641

6. Other Revenues

Other revenues consist of the following:

	Year Ended October 31	
	2008	**2007**
MLB licensing income	**$ 8,622,726**	$ 7,913,345
MLB Advanced Media	**2,000,000**	1,566,667
Spring training	**739,148**	748,493
Private suites	**4,960,677**	4,854,246
Advertising, publications, and other	**744,498**	1,337,423
	$ 17,067,049	$ 16,420,174

7. Leaseholds and Equipment

Leaseholds and equipment relate to PNC Park, the Bradenton spring-training facilities, and the Dominican Republic training and development facility and consist of the following:

	October 31	
	2008	**2007**
Leasehold improvements	**$ 64,280,385**	$ 63,093,048
Ballpark equipment	**4,778,497**	3,832,916
Furniture and fixtures	**7,184,848**	4,444,823
Total leaseholds and equipment	**76,243,730**	71,370,787
Less accumulated depreciation	**25,239,481**	21,207,104
Total depreciable assets	**51,004,249**	50,163,683
Construction in progress	**3,330,558**	151,654
	$ 54,334,808	$ 50,315,337

Depreciation expense for fiscal 2008 and 2007 was $4,032,377 and $3,577,609, respectively.

8. Other Assets

Other assets consist of the following:

	October 31	
	2008	**2007**
Investments designated for deferred compensation agreements	**$ 13,995,577**	$ 14,200,961
MLB Credit Facility deferred financing costs, net	**314,354**	459,442
Other deferred financing costs, net	**664,853**	531,958
Investment in MLB Advanced Media, L.P.	**2,566,667**	2,566,667
Investment in Montreal Expos, L.P./Baseball Expos, L.P.	**827,586**	827,586
Baseball Endowment, L.P.	**8,617,146**	4,900,428
Deferred tax asset	**470,000**	518,000
Other	**301,069**	173,095
	$ 27,757,252	$ 24,178,137

Each of the 30 MLB clubs agreed to cede all of their individual club internet and interactive media rights to form MLB Advanced Media, L.P. (MLBAM). MLBAM is equally owned by each of the MLB clubs. As of October 31, 2008 and 2007, each team contributed $2,566,667. PBP has reflected its investment in MLBAM as a cost method investment.

During the year ended October 31, 2002, MLB as agent for the Clubs entered into an agreement with Baseball Expos, L.P. (BELP) (a newly formed entity affiliated with MLB), Jeffrey H. Loria, and the Florida Marlins, L.P. (formerly known as the Montreal Expos, L.P.) (MELP) with respect to the sale by MELP to BELP of substantially all of the assets constituting the Montreal Expos Baseball Club (Expos).

8. Other Assets (continued)

In addition to the initial purchase price of $121 million, BELP also loaned $38.5 million to MELP in exchange for a promissory note (the First Note). Based on certain conditions not being met for the construction of a new ballpark for the Florida Marlins in South Florida by February 15, 2005, the First Note was replaced by a new promissory note (the Second Note) at a lower amount. The Second Note has an aggregate principal amount of $23.5 million with a ten-year term and does not bear interest. In 2007, the Marlins made the first payment of $2.5 million. Certain annual payments may be cancelled based on certain conditions relating to construction of a new ballpark, relocation from South Florida, and an Expos relocation. During October 2004, MLB announced that the Expos were moving to Washington D.C. The name of the team was changed to the Washington Nationals (Nationals) and the franchise operated in Washington D.C. during 2005 and 2006.

PBP has reflected its pro rata share of the investment in BELP of $3,436,477 as of October 31, 2005, as a cost method investment. The First Note represented $1,327,586 of the investment. With the replacement of the First Note by the Second Note, the First Note was written down by $500,000 in 2006.

In July 2006, Baseball announced the sale of the Nationals and BELP distributed to the Clubs $4.9 million in the form of an investment in Baseball Endowment, L.P. (BELP II) (a newly formed limited partnership affiliated with MLB) and $4.1 million in cash related to the sale in 2007 and 2006. The transaction was completed in 2007. PBP has recorded a gain of $3.8 million and $3.1 million in other nonoperating income in 2007 and 2006, respectively, and has reduced its investment in BELP by $1.1 million and $0.9 million as of October 31, 2007 and 2006, respectively.

For more current information on the Company's investment in Baseball Endowment, LP, see Note 9.

9. Investment in Baseball Endowment, LP

In 2008, MLB transferred to the Clubs, $5.2 million each from the Major League Central Fund receivable in the form of an additional investment in BELP II for a total investment in BELP II of $10.1 million as of October 31, 2008. As directed by MLB, each Club participates in BELP II which is controlled by MLB and maintains investments for which the income can be used for league wide strategic purposes. The underlying investments in BELP II consist of fixed income and cash, public equities, and absolute return funds.

9. Investment in Baseball Endowment, LP (continued)

PBP has classified its investment in BELP II as trading in accordance with FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. For the year ended October 31, 2008, PBP has recorded a loss on investment in BELP II of $1,448,615, which is included in Other income (expense) in the Consolidated Statements of Operations.

10. Deferred Compensation Payments

As of October 31, 2008, deferred compensation payments (net of the interest cost associated with subsequent periods) related to player contracts are estimated as follows:

Year	Amount
2009	$ 988,140
2010	2,576,730
2011	3,814,680
2012	2,314,680
2013	2,314,680
Thereafter	14,814,745
Total	$ 26,823,655

Payments due in 2009 are included in accrued compensation in the accompanying consolidated balance sheets. In addition, as of October 31, 2008 and 2007, $13,995,577 and $14,200,961, respectively, was available in investments for satisfaction of amounts due under certain deferred compensation contracts.

11. Future Commitments Under Long-Term Contracts

PBP has salary compensation commitments under multiyear player, coaching, scouting, and management contracts relating to baseball seasons beyond 2008 as follows:

Year	Amount
2009	$ 32,404,450
2010	15,192,250
2011	7,003,750
Total	$ 54,600,450

12. Pensions

PBP has a noncontributory defined benefit plan covering substantially all other, nonplayer employees who meet certain age and length-of-service requirements. Retirement benefits are determined generally by credited years of service and the participant's average earnings over the final five years of employment. PBP joined the MLB pension plan for nonuniformed personnel (NUPP) effective January 1, 2006. The NUPP is a series of single employee pension plans which share the cost of administration and the benefits of pooling plan assets.

Effective January 1, 2008, a new plan was established to provide pension benefits to minor league players under a simplified formula. A portion of the assets and liabilities of the NUPP was transferred to the Minor League Players Pension Plan during 2008.

On October 31, 2007, PBP adopted the recognition and disclosure provisions of Statement 158. Statement 158 required PBP to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in the October 31, 2007 statement of financial position, with a corresponding adjustment to accumulated other comprehensive income. The adjustment to accumulated other comprehensive income at adoption represents the net unrecognized actuarial losses, unrecognized prior service costs, and unrecognized transition obligation remaining from the initial adoption of Statement 87, all of which were previously netted against the plan's funded status in the Company's statement of financial position pursuant to the provisions of Statement 87. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of Statement 158.

12. Pensions (continued)

The incremental effects of adopting the provisions of Statement 158 on the Company's statement of financial position at October 31, 2007 are presented in the following table. The adoption of Statement 158 had no effect on the Company's consolidated statement of income for the year ended October 31, 2007, or for any prior period presented, and it will not effect the Company's operating results in future periods. The effect of adopting Statement 158 is included in the table below.

	Prior to Adopting Statement 158	**Effect of Adopting Statement 158**	**As Reported at October 31, 2007**
Prepaid pension asset	$ 1,450,219	$ (1,450,219)	$ –
Accrued pension liability	–	2,817,618	2,817,618
Accumulated other comprehensive income	–	4,267,837	4,267,837

Included in accumulated other comprehensive income at October 31, 2008 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized prior service cost of $1,471,000 and unrecognized actuarial losses of $3,891,000. The prior service cost and actuarial loss, included in accumulated other comprehensive income and expected to be recognized in net periodic pension cost during the fiscal year ended October 31, 2009, is $246,000, and $289,000, respectively.

12. Pensions (continued)

The reconciliation of the beginning and ending balances of the projected benefit obligation and the fair value of plan assets for the year ended October 31, 2008 and the accumulated benefit obligation at October 31, 2008 is as follows:

	October 31 2007
Projected benefit obligation	
Beginning of year – November 1, 2007	$ 19,327,350
Change	(2,752,749)
End of year – October 31, 2008	**$ 16,574,601**
Fair value of plan assets	
Beginning of year – November 1, 2007	$ 16,509,732
Change	(4,123,787)
End of year – October 31, 2008	**$ 12,385,945**
Funded status – October 31, 2008	**$ (4,188,656)**
Accumulated benefit obligation – October 31, 2008	**$ 13,398,941**

The underfunded status of the plan of $4,188,656 at October 31, 2008 is recognized in the accompanying statement of financial position as long-term accrued pension liability. No plan assets are expected to be returned to the Company during the fiscal year-ended October 31, 2009.

PBP's funding policy is to contribute an amount equal to the recommended actuarially determined contribution, but not less than the minimum required or more than the maximum allowable under the Internal Revenue Code.

12. Pensions (continued)

The net amounts recognized for the nonplayer plan at October 31 are as follows:

	2008	2007
Amounts recognized in the consolidated balance sheets consist of:		
Accrued benefit obligation	**$ 4,188,656**	$ 2,817,618
Accumulated other comprehensive loss	**(5,362,000)**	(4,267,837)
Benefit cost	**$1,267,524**	$ 1,544,982
Employer contribution	**1,000,000**	1,324,031
Benefits paid	**(461,097)**	(472,836)
Weighted-average assumptions as of October 31:		
Discount rate	**7.50%**	6.25%
Rate of compensation increase	**5.50%**	5.50%
Expected return on assets	**7.50%**	8.50%

Pension plan asset allocations as of October 31, 2008 and 2007, by asset category are as follows:

Asset Class	**2008**	**2007**
Equity securities	**51%**	61%
Fixed income securities	**32**	25
Hedge funds	**11**	4
Cash equivalents	**6**	10
Total	**100%**	100%

Projected contributions to the plan for fiscal 2009 is expected to be $1,450,000.

12. Pensions (continued)

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	Benefits
2009	$ 500,000
2010	600,000
2011	600,000
2012	600,000
2013	700,000
2014–2018	5,200,000

An agreement among PBP and other MLB clubs stipulates that MLB must provide pension and other benefit plans for all players who qualify under the league plan. Contributions to the plan are primarily from proceeds of national radio and television rights, broadcasting joint venture revenues, and certain gate receipts in connection with the All-Star and World Series games. PBP's share of the pension contribution is deducted from the revenue received from the MLCF and amounted to $5.0 and $4.9 million for the fiscal years ended October 31, 2008 and 2007, respectively.

The player pension plan is a multiemployer pension plan, as defined by the U.S. Department of Labor Regulations. In certain circumstances, under such regulations, PBP may be responsible for its share of the unfunded plan benefits.

13. Commitments and Contingencies

The Three Rivers Stadium lease was terminated and replaced with the new ballpark lease agreement effective February 15, 2001. The agreement has a 29.5-year term with PBP holding an option to extend the term for an additional five years. The agreement, which did not occur during fiscal 2008 and 2007, provides for annual rent that includes a base amount of $100,000 with additional rent required to the extent ticketing revenues, concession revenues, and ticket surcharges exceeded certain defined levels within the agreement. PBP incurred annual rent totaling $100,000 in both 2008 and 2007 under this agreement. The agreement also requires PBP to provide $75 million in statutory rent that is due and payable in three $25 million installments following the expiration of the first ten lease years and each ten-year lease period thereafter. The statutory rent amount is reduced by additional tax revenues generated by the new ballpark and its events as defined within the agreement. PBP believes the projected additional tax revenues to be generated by the new ballpark and its events will be sufficient to eliminate the need for PBP to provide any statutory rent payments.

13. Commitments and Contingencies (continued)

MLB, MLB's member clubs, Baseball, and other affiliated baseball entities have been named in a number of lawsuits arising in the normal course of business. As disclosed in the MLCF financial statements, it is not possible at this time to assess the probability of any liability against any parties.

PBP has been named in lawsuits arising in the normal course of business. In management's opinion, any liability that might be incurred in connection with these claims would not have a material effect on PBP's consolidated financial position or the results of its operations.

On December 28, 2006, PBP entered into a 30-year lease agreement with renewal rights with the city of Bradenton for use of the spring training facility. PBP does not pay any rent under the term of the lease; however, they are responsible for operating expenses and routine maintenance of the facility.

During fiscal 2007, a decision was made to replace certain management level employees. As a result of this decision, amounts due (approximately $2.5 million) under the terms of the employment contracts related to these former employees were accrued and charged against operations as restructuring costs. The accrued amounts were paid during fiscal 2008.

14. Related-Party Matters

Due to the ownership structure of PBP, relationships exist between PBP, several limited partners, and the general partner, whereby certain professional services and other business operations are conducted between PBP and these parties. Aggregate expenses recognized during fiscal 2008 and 2007 under the arrangements described above were approximately $256,271 and $193,914, respectively, primarily from the providing of professional services.

15. Financing

Major League Baseball Credit Facility

In December 2003, PBP entered into a new credit facility (the Facility), which replaced the previous facility arranged by MLB and funded by a bank group. The Facility is administered by a trust established by MLB. The trust has borrowings from the lenders, the funds of which have been loaned to the participating clubs. The total credit available under the Facility is $62.97 million at October 31, 2008. PBP has pledged its interest in and rights under existing and future national and international broadcasting contracts, licensing and sponsorship contracts, Internet and interactive media contracts, and the Major League agreements.

The Facility has two tranches: a 364-day, $45.0 million revolving note and a 10-year, $25.0 million term note. As of October 31, 2008, $45.0 million and $17.97 million is outstanding under the revolver and term note, respectively. The proceeds of the notes were used to prepay the prior facility. Outstanding borrowings under the revolving note bear interest upon a commercial paper rate plus a .225% program fee which was 3.41% at October 31, 2008. In addition, a commitment fee of .325% is payable based upon 102% of the total revolving credit available. Outstanding borrowings under the term note bear interest at a rate of 4.88%. In December 2008, the 364-day revolving note portion of the Facility was not renewed by the bank group and repayment of the revolver will commence over a six-year period beginning in December 2008 and ending December 2015. The new interest rate during the repayment period will be LIBOR +85bps for the first six months and 110bps thereafter.

A debt service reserve is maintained to cover interest and fees on the outstanding notes at the then applicable borrowing rates plus 2.0% on the revolving outstanding balance. The debt service reserve account is funded by distributions from MLB. The balance of the debt service reserve account included in prepaid and other current assets was $652,373 and $1,378,412 as of October 31, 2008 and 2007, respectively.

15. Financing (continued)

Principal repayments on the revolving note and the term note are as follows:

Fiscal Year	Amount
2009	$ 3,873,750
2010	4,593,750
2011	10,983,750
2012	10,623,750
2013	11,433,750
Thereafter	21,460,000
	$ 62,968,750

Revolving Notes Payable

On November 9, 2004, PBP refinanced its Revolving Notes Payable facility that was entered on July 31, 2001. The five-year revolving credit agreement allows for borrowings up to a maximum availability of $60 million. The maximum availability under the revolving credit facility reduces $3.3 million per year in the third through fifth year. The borrowings are securitized by the PBP's franchise and all related rights, assets, and cash flows with the exception of rights to distributions from the Central Fund, MLB Properties and MLB Advanced Media, the ownership interest of the borrower and the borrower's ownership interest in the Pirates Club Trust, and all rights to distributions from the Pirates Club Trust. The interest rate is based on meeting certain covenants and ranges from LIBOR +150 bps to LIBOR + 200 bps.

On January 25, 2008, PBP closed on a refinancing of its Revolving Notes Payable Facility that was entered on November 9, 2004. The amended and restated six year agreement allows for borrowings up to an initial maximum availability of $70.0 million. PBP, upon meeting certain requirements under the agreement, can request an increase up to $100.0 million. The agreement also allows for capital expenditures up to $35.0 million in the aggregate over the term of the agreement. The interest rate is based on meeting certain covenants and ranges from LIBOR + 125bps to LIBOR +150bps. All other terms and conditions are generally the same as the previous agreement.

15. Financing (continued)

On May 31, 2000, PBP entered into an amended and restated equity participation loan agreement with the Urban Redevelopment Authority (URA). The amended agreement provides for a $140 million judgment note that is repayable only if a relocation transaction, as defined in the amended agreement, occurs. The $140 million judgment note was issued in substitution of the $29.7 million of outstanding borrowings previously outstanding. Under certain limited circumstances, the $29.7 million plus $4.8 million of accrued interest is repayable to the URA. The URA provided additional funds of $11.5 million between 1996 and 1999 that are also repayable under certain limited circumstances. All funds received from the URA are being accounted for and recognized as a capital contribution in connection with PBP executing the amended agreement in the accompanying consolidated balance sheets.

16. Amended Partnership Agreement

On June 30, 2003, PBP amended its limited partnership agreement. The amendment provides for a new class of convertible preferred limited partnership interests (Preferred LP units) in PBP. PBP can issue up to $25 million; however, the general partner, in its sole discretion, may increase the aggregate amount if the subscription is oversubscribed. PBP raised $20 million from the issuance for working capital purposes in fiscal 2003.

The Preferred LP units permit the holder to voluntarily convert part or all of its Preferred LP units into Common LP units. Immediately prior to a Mandatory Conversion Event, each Preferred LP unit automatically converts into Common LP units or the Preferred LP unit holder may elect to receive cash for part or all of its Preferred LP units in an amount equal to the Preferred Conversion Amount. A Mandatory Conversion Event is the occurrence of any of the following: (a) the sale of substantially all of the assets of PBP, (b) the transfer, sale, or disposition by the partners of at least 51% of the Preferred LP units, or (c) the liquidation, dissolution, or winding up of PBP. The Preferred Conversion Amount represents the 15% per annum return, compounded annually, on the amount invested in Preferred LP units. The 15% return continues to accrue until the earlier of: (1) the fifth anniversary of the closing date or (2) the conversion of the Preferred LP units into Common LP units.

PBP cannot redeem the Preferred LP units without prior written consent of the holder. To the extent permitted by PBP's lenders, during the Redemption Period, each Preferred LP unit holder has the right to require PBP to redeem all or part of the Preferred LP units in an amount equal to the Preferred Conversion Amount as of the applicable redemption date. The Redemption Period begins on the fifth anniversary of the closing date and ends on the eighth anniversary of the closing date.

16. Amended Partnership Agreement (continued)

PBP has recorded the Preferred LP units at an amount equal to the proceeds received with accretion of the Preferred LP amount equal to the 15% compounded annual return over the five-year period subsequent to the closing date.

In December 2007 and July 2008, the holders required PBP to make cash interest payments of $4.6 million and $5.0 million, respectively, pursuant to the amended limited partnership agreement. Furthermore, in July 2008, the holders elected to convert $20.0 million of the Cumulative Preferred Conversion Amount into Common LP Units. At October 31, 2008, the balance of the Cumulative Preferred Conversion Amount is $10.4 million and the holders reserve all the rights with respect to their Preferred LP Units.

The accretion of the 15% annual return on the issued Preferred LP units affected the partners' capital accounts as follows:

Year ended October 31, 2007:	
Accretion of 15% annual return	$ 4,733,724
Allocation of charge to retained earnings	(4,733,724)
Total reflected in the accompanying statement of changes in partners' capital	$ –
Year ended October 31, 2008:	
Accretion of 15% annual return	**3,398,750**
Allocation of charge to retained earnings	**(3,398,750)**
Total reflected in the accompanying statement of changes in partners' capital	**$ –**

17. Income Taxes

The provision for income tax expense includes current and deferred taxes as follows for the years ended October 31:

	2008	2007
Current taxes:		
Federal	**$ –**	$ (3,000)
State	**9,157**	(412)
	9,157	(3,412)
Deferred taxes:		
Federal	**48,000**	25,000
	48,000	25,000
Income tax provision	**$ 57,157**	$ 21,588

Deferred tax assets consisted of the following on October 31:

	2008	2007
Alternative minimum tax credit carryforward	**$ 450,000**	$ 450,000
Net operating loss carryforward	**20,000**	68,000
	$ 470,000	$ 518,000

The corporate entities wholly owned by PBP have a federal net operating loss carryover of approximately $61,000, which can be carried forward to offset future taxable income. The net operating loss can be carried forward 20 years and begins to expire in 2023. In addition, the corporate entities also have federal alternative minimum tax credit carryfowards of approximately $450,000, which can be carried forward indefinitely to offset any regular tax liabilities.

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