BULL RUN CORP
Form 10-K
November 08, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

þ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended August 31, 2005**

or

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to __________**

Commission File Number 0-9385
BULL RUN CORPORATION
(Exact name of registrant as specified in its charter)

Georgia	**58-2458679**
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)
4370 Peachtree Road, N.E., Atlanta, GA	**30319**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code **(404) 266-8333**
Securities registered pursuant to Section 12(b) of the Act:

Title of each class: None	Name of each exchange on which registered: N/A
Securities registered pursuant to Section 12(g) of the Act:	**Common Stock, $.01 par value** (Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). o Yes þ No
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). o Yes þ No
The aggregate market value of the voting and non-voting common equity held by non-affiliates was $1,552,489 based on the price at which Bull Run s common stock was last sold on February 25, 2005, the last business day of Bull Run s most recently completed second fiscal quarter, as reported on the Pink Sheets, a centralized quotation service for OTC securities. The number of shares outstanding of Bull Run s common stock as of October 31, 2005 was 6,889,767.

DOCUMENTS INCORPORATED BY REFERENCE

Documents	Form 10-K Reference
None	Not Applicable

BULL RUN CORPORATION
FORM 10-K
For the fiscal year ended August 31, 2005
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PART I

Item 1. Business

General

Bull Run Corporation, also referred to as Bull Run or the Company, based in Atlanta, Georgia, conducts a sports and affinity marketing, printing and publishing, and association management company through its sole operating business, Host Communications, Inc., or Host. Host s Collegiate Marketing and Production Services business segment provides sports marketing and production services to a number of collegiate conferences and universities, and, through a contract with CBS Sports, on behalf of the National Collegiate Athletic Association, or NCAA. Host s Association Management Services business segment provides various associations with services such as member communication, recruitment and retention, conference planning, Internet web site management, marketing and administration.

In August 2005, Bull Run announced its intention, subject to shareholder approval, to merge with Triple Crown Media, Inc., or TCM, a newly-formed company. Following the merger, TCM would be comprised of Host s Collegiate Marketing and Production Services business, Host s Association Management Services business and the newspaper publishing business and Graylink Wireless business currently operated by Gray Television, Inc., or Gray.

Pursuant to the plan of merger, Bull Run would be merged with and into BR Acquisition Corp. (a wholly owned subsidiary of TCM) immediately following Gray s transfer to TCM of the equity interests of Gray Publishing, LLC and Graylink Wireless, and the distribution of TCM s outstanding shares of common stock owned by Gray to Gray s stockholders, referred to as the Spin-off. In the merger, each Bull Run shareholder will receive 0.0289 shares of TCM common stock for each share of Bull Run common stock owned. In the merger, Bull Run preferred stock held by non-affiliated holders will be redeemed for its redemption value as of the date of the transaction. Holders of preferred stock and other loans to Bull Run who are affiliates of Bull Run, including J. Mack Robinson, Gray s current Chairman and Chief Executive Officer and Chairman of the Board of Bull Run, will receive shares of TCM common stock in exchange for shares of Bull Run series F preferred stock and accrued and unpaid dividends thereon; shares of TCM series A convertible preferred stock in exchange for shares of Bull Run series D and series E preferred stock and accrued and unpaid dividends thereon; and shares of TCM series B convertible preferred stock in exchange for cash previously advanced to Bull Run. The agreement is subject to certain closing conditions, including the approval of Bull Run s shareholders. TCM has received a long-term financing commitment from bank lenders that will accommodate the payment of a $40 million cash distribution to Gray contemplated in connection with the Spin-off, the redemption in cash of all Bull Run preferred stock held by those other than the Chairman and his affiliates, the refinancing of all of the surviving corporation s bank and subordinated indebtedness, and transaction and financing costs.

For financial information for each of our business segments described below, see Note 19 of the Notes to Consolidated Financial Statements appearing in Item 8 Financial Statements and Supplementary Data.

Collegiate Marketing and Production Services Segment

Collegiate Sports The Company, through Host, provides sports and marketing services for a number of NCAA Division I universities and athletic conferences. The agreements relating to the services rendered by the Company vary by school or conference, but typically provide for some or all of the following:

- production of radio and television broadcasts of certain athletic events and coaches shows;
- sale of advertising during radio and television broadcasts of games and coaches shows;
- sale of media advertising and venue signage;
- sale of official sponsorship rights to corporations;
- publishing, printing and vending of game-day and other programs;
- creative design of materials, video production, and construction and management of Internet web sites; and

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coaches endorsements and pay-per-view telecasts.

Institutions and organizations with which the Company has agreements include the University of Arizona, Florida State University, the University of Kentucky, the University of Michigan, Oklahoma State University, the University of Tennessee, the University of Texas and the Southeastern Conference. The Company also has marketing rights to the SBC Red River Rivalry featuring the University of Texas and University of Oklahoma s annual football game, and the Lone Star Showdown series of games featuring the University of Texas and Texas A&M University. In addition, the Company has published Dave Campbell s Texas Football Magazine and has had marketing rights to an annual series of football games that feature six prominent Texas high school teams. Contracts with institutions and organizations for marketing and production services are generally three to ten years in length and require the Company to pay to the institution or organization an annual guaranteed rights fee, a percentage of revenues or profits derived from the relationship, or a combination thereof. The percentage of revenues derived by the Company under contracts for the multi-media marketing rights described above that are ultimately shared with the institution and organization is generally greater than 50% and the percentage of revenue shared typically increases upon reaching certain total revenue threshold amounts as specified in the agreements. For the fiscal year ended August 31, 2005, the Company s rights fee expense was approximately $22.3 million, of which, approximately $15.9 million represented guaranteed rights fees.

Under an agreement with CBS Sports, which expires in June 2007, the Company has the exclusive rights to produce, distribute and sell all of the approximately 150 game programs and publications in connection with 87 NCAA championships, including the Men s and Women s Final Four Division I basketball championships. Host has published NCAA championship programs since 1977. The agreement with CBS Sports requires the Company to pay to CBS Sports an annual guaranteed rights fee and internally incur the cost of producing the NCAA championship programs and publications, and in return, the Company generates and retains print advertising and vending revenues derived in connection with such programs and publications.

In addition to the publishing rights through CBS Sports, the Company has an exclusive agreement with NCAA Football USA, Inc., or NCAA Football, a not-for-profit entity organized to promote college football. Under the terms of the agreement, the Company manages the entity, licenses certain trademarks for corporate sponsorships or for merchandise for resale and is entitled to retain 40% of all revenues derived through the sale of corporate sponsorships and all merchandise licensing associated with the brand. Through its Integrated Media Group, the Company produces various commercial spots and other media to promote the brand. The Company s current contract with NCAA Football expires in 2013.

Integrated Media Group Under Host, the Company produces more than 700 publications annually for a variety of clients, including the NCAA, college football conferences, universities, and various collegiate associations. The Company s publications include game programs, media guides, posters and marketing brochures. The Company also provides high quality printing services for corporations and not-for-profit organizations nationwide, consisting of directories, annual reports, brochures, posters, programs and catalogs.

The Company produces television programs, videos, radio broadcasts, commercial audio and Internet related services, and administers the regional radio networks of seven NCAA Division I universities and the Southeastern Conference. The Company s digital recording studios handle network quality soundtracks for radio, television and multi-image presentations.

Association Management Services Segment

Under Host, the Association Management Services segment provides a full range of management services to multi-national associations, including the National Tour Association (a nearly 4,000-member global association for the packaged travel industry, which has been a client since 1974), Quest International Users Group, Inc. (a not-for-profit association for users of JD Edwards Enterprise One and World software and PeopleSoft Enterprise software), the International SPA Association and the

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International Coach Federation (a global association of personal and business coaches having over 8,000 members). The Company s services include association management, financial reporting, accounting, marketing, publishing, government lobbying, education, event management, Internet web site management and membership growth activities.

Discontinued Segments

In August 2004, the Company announced its intent to suspend and sell its Affinity Events business segment due to the segment s historical operating losses and the Company s intention to focus on its collegiate, printing and publishing and association management businesses. In December 2004, the Company sold the Affinity Events business. The Company s Affinity Events segment formerly produced and managed large participatory sporting events throughout the United States and Canada. In connection with these events, the Company provided professional marketing and management services to corporations. The Company organized and promoted the events, sold national, regional and local sponsorships and advertising, and generated merchandise sales. Sponsors and advertisers received, among other benefits, on-site consumer interactive opportunities, print and other media advertising, and signage. Events tours operated under the Affinity Events segment included the Hoop-It-Up® 3-on-3 basketball tour and the 3v3 Soccer Shootout. The Company also created and executed specific events and promotional tours for corporate clients, including mobile marketing units.

The Company formerly provided consulting services to Gray from time to time. Consulting services have included transaction search, analysis, due diligence, negotiation and closing. Fees were based on a rate of 1% of transaction value. Such services ceased in October 2002.

The Company formerly marketed and sold heavy-duty dot matrix and thermal printers under the Datasouth name. The Company sold its Datasouth business in September 2000.

For additional information with respect to discontinued business segments, including financial reporting as discontinued operations, see Management s Discussion and Analysis Discontinued Operations in Item 7 hereof and Note 4 to the Company s Consolidated Financial Statements in Item 8.

Sales and Marketing

The Company not only provides corporations and organizations a wide array of advertising and sponsorship opportunities to associate its brand, product or service with collegiate sports, specific universities and collegiate conferences, and multi-national associations, but also by virtue of the Company s printing, publishing, broadcast, Internet and other media production capabilities provides its customers with support in preparing advertising materials in connection with its marketing rights agreements with such universities and conferences and its association management contracts. The Company also provides sports and marketing services for a number of NCAA Division I universities and conferences under contracts typically ranging from three to ten years in length. The Company intends to continue to seek long-term multi-media rights agreements. Initial multi-media rights agreements with universities and conferences generally result from a competitive bid proposal process. These contracts generally contain provisions for exclusive negotiation periods of contract renewal terms.

The Company employs a full-time national sales and marketing staff and has dedicated a senior group of sales and marketing executives to identify potential client relationship opportunities and promote the Company s expertise and range of services. The Company solicits prospective clients and advertisers through its sales team and through personal contacts by members of Host s management. Each university, athletic conference and association property has its own dedicated sales team that solicits local sponsorship and advertising arrangements, complemented by a national/regional sales team. Some contracts for corporate sponsorship and advertising are for periods of more than one year. Personnel assigned to university and athletic conference properties are generally located at or near the particular university campuses or athletic conference location.

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Competition

As a provider of marketing services, the Company competes with suppliers of traditional advertising in broadcast and print media as well as with other marketing service producers and internal marketing programs. The competition for brand marketing expenditures is very intense and highly fragmented. In the collegiate sports marketing industry, the Company principally competes with companies that hold marketing rights to a greater number of university properties, such as Learfield Sports and ISP Sports, companies that have greater financial resources than the Company, such as ESPN Regional and Viacom Sports, and companies that have a concentration in a single area of marketing rights, as Action Sports Media does in the area of arena signage. The Company has chosen to focus its resources on acquiring marketing rights to NCAA Division I universities and conferences that have large concentrated fan bases, and on opportunities to obtain a significant amount of the marketing rights provided by universities and conferences. The Company believes that Host Communications is the most recognized name in the industry due in part to its founder establishing the first-ever radio rights agreement for NCAA championships in 1974 and creating the NCAA corporate partner program in 1985, and that the business has a reputation for creativity and high quality. The Company also believes that it has the most vertically-integrated company among those in the industry, as a result of its printing and publishing operation and its internet web site development and management capabilities. In its recent past, the Company s competitive disadvantage has been primarily that its financial condition has been impaired by the operating losses produced by its Affinity Events business segment, which was discontinued and sold in 2004. However, the Company believes that the anticipated improved financial stability provided by the proposed merger with TCM will significantly reduce this competitive disadvantage.

The Company has a negligible market share of the association management business, an industry dominated by large companies such as SmithBucklin Corporation. Despite the size of certain association management companies, the industry includes a significant number of companies the size of or smaller than the Company. The Company believes that its association management capabilities are customized to meet its clients needs, with senior staff assigned to serve only one association, and that this customization and individual attention provides it a competitive advantage to associations seeking value-added services. The Company also believes that its printing, publishing, media production and Internet in-house capabilities provide it a competitive advantage. Like the collegiate marketing business, the association management business has endured the competitive disadvantage caused by the effects on its financial condition caused by the discontinued Affinity Events business segment. Other competitive disadvantages result from the few number of associations currently managed by the Company, and the lack of having an accreditation with for example, the American Society of Association Executives Accreditation Program.

Seasonality

The Company s Collegiate Marketing and Production Services business is seasonal, in that the majority of the revenue and operating profit is derived from the period beginning in September and concluding in March, since much of the revenue derived in this segment is related to events and promotions held during the collegiate football and basketball seasons.

Employees

The Company has approximately 270 full-time employees, of whom, approximately 225 are employed by Host at its Lexington, Kentucky facilities. The rest of the employees are located in offices throughout the United States supporting either sales or the collegiate properties. The Company is not a party to any collective bargaining agreements and believes its relations with its employees are satisfactory.

Executive Officers

The information contained in Item 10 hereof is incorporated herein by reference.

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Available Information

The Company s Internet address is www.bullruncorp.com, where we make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports, as soon as practicable after such reports are electronically filed with, or furnished to, the SEC. The SEC reports can be accessed through the SEC Reports link in the index on our web site. Other information found on our web site is not part of this or any other report we file with or furnish to the SEC.

The public may also read and copy any materials the Company files with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, at www.sec.gov.

Item 2. Properties

The Company s executive offices are located in Atlanta, Georgia in approximately 2,000 square feet of office space leased on a month-to-month basis from Delta Life Insurance Company, a company in which the Company s Chairman of the Board is an executive officer and principal stockholder.

The Company owns seven acres of land and a building with approximately 25,000 square feet of production, office and warehouse space in Lexington, Kentucky for Host s Printing and Publishing Divisions. Host also has approximately 41,000 square feet of leased office space in two locations in Lexington expiring in April 2006; approximately 49,000 square feet of office space under lease in Dallas, Texas through December 2005, of which, all space except approximately 1,700 square feet still utilized by the Company is currently subleased through December 2005; and approximately 4,300 square feet of office space under lease in New York City through August 2010, all of which has been subleased. Host also has small regional and local field offices primarily located close to the universities and conferences with which it has contracts.

Item 3. Legal Proceedings

Sarkes Tarzian, Inc. v. Bull Run Corporation and Gray Television, Inc.

In January 1999, the Company acquired shares of Sarkes Tarzian, Inc., or Tarzian, common stock, $4.00 par value, or the Tarzian Shares, from the Estate of Mary Tarzian, or the Estate, for $10.0 million. In March 1999, the Company and Gray entered into an option agreement whereby Gray purchased an option to acquire the Tarzian Shares from the Company, and in December 2001, Gray exercised such option, purchasing the Tarzian Shares from the Company for $10.0 million. During the option period, the Company received fees from Gray in the aggregate amount of $3.2 million.

On February 12, 1999, Tarzian filed suit in the United States District Court for the Southern District of Indiana against U.S. Trust Company of Florida Savings Bank as Personal Representative of the Estate, claiming that Tarzian had a binding and enforceable contract to purchase the Tarzian Shares from the Estate. On February 3, 2003, the Court entered judgment on a jury verdict in favor of Tarzian and against the Estate for breach of contract and awarded Tarzian $4.0 million in damages. The Estate appealed the judgment and Tarzian cross-appealed. On February 14, 2005, the Seventh Circuit Court of Appeals issued a decision concluding that no contract was ever created between Tarzian and the Estate, reversing the judgment of the District Court, and remanding the case to the District Court with instructions to enter judgment for the Estate. Tarzian s petition for rehearing was denied by the Seventh Circuit, and on October 3, 2005, the U.S. Supreme Court denied Tarzian s petition for certiorari. Tarzian has also filed a motion for a new trial in the District Court based on the Estate s alleged failure to produce certain documents in discovery, and on June 16, 2005, the Court denied Tarzian s motion. On July 21, 2005, Tarzian filed a notice of appeal to the Seventh Circuit Court of Appeals from the District

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Court s denial of its motion for new trial and entry of final judgment for the Estate, which is pending. The Company is not directly involved in this litigation, but has been the subject of litigation related to this matter as described below.

On March 7, 2003, Tarzian filed suit in the United States District Court for the Northern District of Georgia against Gray and the Company for tortious interference with contract and conversion. The lawsuit alleges that Bull Run and Gray purchased the Tarzian Shares with actual knowledge that Tarzian had a binding agreement to purchase the stock from the Estate. The lawsuit seeks damages in an amount equal to the liquidation value of the interest in Tarzian that the stock represents, which Tarzian claims to be as much as $75 million, as well as attorneys fees, expenses, and punitive damages. The lawsuit also seeks an order requiring Gray and the Company to turn over the Tarzian Shares to Tarzian and relinquish all claims to the stock. The stock purchase agreement with the Estate would permit the Company to make a claim against the Estate in the event that title to the Tarzian Shares is ultimately awarded to Tarzian. There is no assurance that the Estate would have sufficient assets to honor any or all of such claim. The Company filed its answer to the lawsuit on May 14, 2003 denying any liability for Tarzian s claims. On May 27, 2005, the Court issued an Order administratively closing the case pending resolution of Tarzian s lawsuit against the Estate in Indiana federal court as described in the preceding paragraph. The Company believes it has meritorious defenses and intends to vigorously defend the lawsuit. The Company cannot predict when the final resolution of this litigation will occur or when Tarzian s claim against the Estate will be resolved.

Item 4. Submission of Matters to a Vote of Security Holders

The Company did not submit any matter to a vote of security holders during the quarter ended August 31, 2005.

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PART II

Item 5. Market for the Registrant s Common Equity and Related Stockholder Matters

Market Information

The Company s common stock, par value $.01 per share, is quoted on the Pink Sheets (www.pinksheets.com) centralized quotation service for OTC securities under the symbol BULL.PK. Until January 2004, the Company s common stock was traded on the Nasdaq SmallCap Market under the symbol BULL. The following table sets forth for each period indicated the high and low sale prices for the Company s common stock as reported by the Pink Sheets and previously, by The Nasdaq Stock Market. Such prices reflect interdealer prices without adjustments for retail markups, markdowns or commissions.

	High	Low
Fiscal Year Ended August 31, 2004		
First Quarter ended November 30, 2003	$ 3.61	$ 1.01
Second Quarter ended February 29, 2004	1.80	.51
Third Quarter ended May 31, 2004	.65	.48
Fourth Quarter ended August 31, 2004	.50	.18
Fiscal Year Ended August 31, 2005		
First Quarter ended November 30, 2004	$ .85	$ .23
Second Quarter ended February 28, 2005	.70	.36
Third Quarter ended May 31, 2005	.91	.60
Fourth Quarter ended August 31, 2005	.90	.38

Holders

As of October 31, 2005, there were 2,091 holders of record of the Company s common stock.

Dividends

Since its inception, the Company has not declared or paid a cash dividend on its common stock. It is the present policy of the Company s Board of Directors to retain all earnings to finance the development and growth of the Company s business. The Company s future dividend policy will depend upon its earnings, capital requirements, financial condition and other relevant circumstances existing at that time. The Company s bank credit agreement also contains restrictions on the Company s ability to declare and pay dividends on its common stock.

Item 6. Selected Financial Data

The following tables set forth certain selected historical consolidated financial data of the Company. The selected consolidated financial data as of and for the fiscal years ended August 31, 2005, 2004 and 2003; as of and for the two months ended August 31, 2002; and as of and for the fiscal years ended June 30, 2002 and 2001 are derived from the audited consolidated financial statements of the Company. The selected consolidated financial data for the two months ended August 31, 2001 are derived from unaudited condensed consolidated financial information of the Company. The unaudited condensed consolidated financial information includes all adjustments, consisting of normal, recurring items, which the Company considers necessary for a fair statement of its financial position and results of operations for the period. This information should be read in conjunction with the audited consolidated financial statements of the Company and related notes thereto appearing elsewhere herein, as well as Management s Discussion and Analysis of Financial Condition and Results of Operations.

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SELECTED FINANCIAL DATA

(Dollar and share amounts in thousands, except per share amounts)

STATEMENT OF OPERATIONS DATA:

	Year Ended August 31,			Two Months Ended August 31,		Year Ended June 30,	
	2005	**2004**	**2003**	**2002**	**2001 (Unaudited)**	**2002**	**2001**
Total revenue	$ 61,879	$ 55,779	$ 64,129	$ 4,591	$ 7,853	$ 93,813	$ 96,136
Loss from continuing operations	(5,141)	(7,137)	(28,444)	(3,946)	(3,490)	(32,278)	(16,143)
Net loss	(5,290)	(14,611)	(37,986)	(5,355)	(3,428)	(34,558)	(18,704)
Net loss available to common stockholders	(5,290)	(16,848)	(39,135)	(5,448)	(3,473)	(34,954)	(18,704)
Loss from continuing operations available to common stockholders per basic and diluted common share	$ (0.81)	$ (2.01)	$ (7.42)	$ (1.07)	$ (0.98)	$ (8.96)	$ (4.57)

BALANCE SHEET DATA:

	As of August 31,				As of June 30,	
	2005	**2004**	**2003**	**2002**	**2002**	**2001**
Working capital (deficit)	$ (26,229)	$ (19,146)	$ (12,034)	$ (32,252)	$ (26,827)	$ (16,951)
Investment in affiliated companies	-0-	-0-	-0-	25,013	25,115	50,399
Total assets	64,676	60,942	73,812	143,780	151,007	201,061
Amounts due to (due from) related parties	11,786	9,290	96	(127)	(100)	68
Long-term obligations	61,625	64,625	72,641	93,091	98,091	107,693
Redeemable preferred stock, noncurrent liability	22,082	24,296	-0-	-0-	-0-	-0-
Stockholders deficit	(59,061)	(56,551)	(27,002)	(2,188)	(1,274)	37,604

NOTES TO THE SELECTED FINANCIAL DATA

The changes from year to year are primarily a result of the following items:

2005 Bank debt of $7.5 million classified as a current liability at August 31, 2005 (noncurrent at August 31, 2004.)

2004 Intangibles impairment charge of $3.3 million;

classification of redeemable preferred stock of $24.3 million as a noncurrent liability (of which, $19.7 million is held by the Company s Chairman or one of his affiliates) since the Chairman s beneficial ownership of the Company s outstanding common stock exceeded 50% at August 31, 2004 for the first time (such preferred stock was previously included as a component of stockholders deficit).

2003 Sale of investments in Gray Television, Inc. common stocks, warrants for Gray common stocks and Rawlings Sporting Goods Company, Inc. common stock, resulting in an aggregate gain of $17.2 million, with $38 million of the proceeds being applied to long-term debt; impairment charge of

	$30.5 million taken to reduce the carrying value of goodwill and other acquisition intangible assets (of which, $7.0 million included in discontinued operations); and an aggregate of $5.2 million in valuation impairment charges taken to reduce carrying value of investments in affiliates and non-trade receivables.
2002	Sale of investments in Gray preferred stock and Sarkes Tarzian, Inc. common stock with such proceeds being applied to long-term debt; and the acceleration of costs and expenses, including an intangibles impairment charge of $6.6 million, as a result of a change in a significant contractual relationship; proportionate share of Gray s accounting change

cumulative
effect
adjustment, net
of tax.

No dividends were declared or paid during the periods presented.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Bull Run Corporation, or the Company, based in Atlanta, Georgia, conducts a sports and affinity marketing, printing and publishing, and association management company through its sole operating business, Host Communications, Inc., or Host. Host s Collegiate Marketing and Production Services business segment provides sports marketing and production services to a

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number of collegiate conferences and universities, and through a contract with CBS Sports, on behalf of the National Collegiate Athletic Association, or NCAA. Host s Association Management Services business segment provides various associations with services such as member communication, recruitment and retention, conference planning, Internet web site management, marketing and administration.

In August 2005, Bull Run and Gray Television, Inc., or Gray, announced that Triple Crown Media, Inc., or TCM, BR Acquisition Corp. (a wholly owned subsidiary of TCM), and Bull Run had entered into an agreement and plan of merger, pursuant to which Bull Run will be merged with and into BR Acquisition Corp. immediately following Gray s transfer to TCM of the equity interests of Gray Publishing, LLC and certain other assets, and the distribution of TCM s outstanding shares of common stock owned by Gray to Gray s stockholders, such transfer and distribution being referred to as the Spin-off. In the merger, each Bull Run shareholder will receive 0.0289 shares of TCM common stock for each share of Bull Run common stock owned. In the merger, Bull Run preferred stock held by non-affiliated holders will be redeemed for its redemption value as of the date of the transaction. Holders of preferred stock and other loans to Bull Run who are affiliates of Bull Run, including J. Mack Robinson, Gray s current Chairman and Chief Executive Officer and Chairman of the Board of Bull Run, will receive shares of TCM common stock in exchange for shares of Bull Run series F preferred stock and accrued and unpaid dividends thereon; shares of TCM series A convertible preferred stock in exchange for shares of Bull Run series D and series E preferred stock and accrued and unpaid dividends thereon; and shares of TCM series B convertible preferred stock in exchange for approximately $6 million of cash previously advanced to Bull Run. The agreement is subject to certain closing conditions, including the approval of Bull Run s shareholders.

TCM has received a long-term financing commitment from bank lenders that will accommodate the payment of a $40 million cash distribution to Gray contemplated in connection with the Spin-off, the redemption in cash of all Bull Run preferred stock held by those other than the Chairman and his affiliates, the refinancing of all of the surviving corporation s bank and subordinated indebtedness, and transaction and financing costs.

CERTAIN RELATIONSHIPS

J. Mack Robinson, Chairman of the board of the Company, is the beneficial owner of approximately 58.6% of the Company s common stock as of August 31, 2005, and Mr. Robinson and his affiliates also own shares of the Company s convertible preferred stock having an aggregate face amount of approximately $19.8 million as of that date representing approximately 89.5% of the aggregate face amount of all outstanding preferred stock on that date.

Mr. Robinson is also Chief Executive Officer, Chairman and a director of Gray, and the beneficial owner of Gray common stocks representing approximately 29.9% of the combined voting power of Gray s two classes of common stock as of March 29, 2005. Robert S. Prather, Jr., President, Chief Executive Officer and a director of the Company, is President, Chief Operating Officer and a director of Gray, and the beneficial owner of Gray common stocks representing approximately 2.8% of the combined voting power of Gray s two classes of common stock as of March 29, 2005. Hilton H. Howell, Jr., the Company s Vice President and Secretary, is Vice Chairman and a director of Gray, and the beneficial owner of Gray common stocks representing approximately 7.5% of the combined voting power of Gray s two classes of common stock as of the same date. Beneficial ownership percentages include warrants and options to acquire shares of Gray common stocks that were exercisable on, or within 60 days after, such date.

Mr. Robinson personally guarantees substantially all of the debt outstanding under the Company s bank credit facility. Under the terms of his guarantee, Mr. Robinson has the option to purchase the entire loan from the banks, and thereby would become the holder of the debt currently payable to the banks and the related lien on the Company s assets.

W. James Host, a director of the Company until his resignation in January 2004, previously owned along with his wife, shares of the Company s convertible preferred stock having an

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aggregate face amount of approximately $1.8 million. In October 2004, Mr. Host and his wife exercised their right to convert their shares of preferred stock to approximately 255,000 shares of the Company s common stock. As of August 31, 2005, other officers or directors of the Company own shares of the Company s preferred stock having an aggregate face value of approximately $0.2 million.

Through a rights-sharing agreement with Gray, the Company participates jointly with Gray in the marketing, selling and broadcasting of certain collegiate sporting events and in related programming, production and other associated activities of one university. In its role under the agreement with Gray, the Company manages the preponderance of the revenue-generating and sales fulfillment activities and provides all administrative functions for the Company and Gray. As a result, the Company recognizes the total revenues derived and expenses incurred in connection with services performed on behalf of the university, and expenses amounts paid to Gray under the rights-sharing agreement as a rights fee. During the fiscal year ended August 31, 2004, Gray paid $1.5 million under this provision, and as of August 31, 2005, the Company has accrued fees payable to Gray of approximately $1.2 million, comprised of $1.0 million of the $1.5 million paid by Gray on behalf of the Company in the fiscal year ended August 31, 2004, plus $0.2 million payable to Gray in connection with annual settlements of certain shared revenues and operating expenses. In April 2005, the Company, Gray and the university entered into a new agreement for expanded sports marketing rights for an initial seven year term with an option to extend the license for three additional years. At the same time, the Company and Gray entered into a new rights sharing agreement for the same 10-year period. Under this new agreement with Gray, the Company continues to recognize the total revenues derived and the total expenses incurred in connection with services performed on behalf of the university, and expenses amounts payable to Gray as a component of the Company s rights fee expense. The amount payable to Gray will be 50% of the profit or loss to be derived from these marketing activities, as determined at the conclusion of each contract year. The new agreement with Gray also requires Gray to pay to the university 50% of the rights fees payable under the contract with the university as each rights fee installment payment becomes due. Such amounts paid by Gray during the contract year will be added to the annual settlement amount between the Company and Gray.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make judgments and estimations that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Company considers the following accounting policies to be critical policies that require judgments or estimations in their application where variances in those judgments or estimations could make a significant difference to future reported results.

Revenue Recognition and Rights Fee Expenses

Revenue from services is recognized as the services are rendered, and consists primarily of advertising revenues in connection with broadcast and print media sold by the Company, the rights to which are generally acquired by the Company under the multi-media rights agreements with collegiate institutions or associations. Advertising revenues are recognized when the event occurs or the publication is publicly distributed. In addition, to a lesser extent, the Company derives revenue from corporate sponsorship and licensing arrangements, association management fees, radio station rights fees, sales of commercial printing and other miscellaneous revenues generated from product sales and production services. Corporate sponsorships related to specific events are recognized when the event occurs or as the events occur. Corporate sponsor license fee revenue that is not related to specific events is recognized evenly over the term of the licensing arrangement. Association management fees are recognized over the term of the contract year as the related services are performed. Radio station rights fees are recognized ratably as games are broadcast. Sales of commercial printing and other product sales are recognized when title passes to the customer, or in the case of vending revenues, when the game is played.

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The allowance for doubtful accounts represents the Company s best estimate of the accounts receivable that will be ultimately collected, based on, among other things, historical collection experience, a review of the current aging status of customer receivables, and a review of specific information for those customers that are deemed to be higher risk. The Company evaluates the adequacy of the allowance for doubtful accounts on at least a quarterly basis. Unfavorable changes in economic conditions might impact the amounts ultimately collected from advertisers and corporate sponsors and therefore may result in an inadequate allowance.

In certain circumstances, the Company enters into contractual arrangements with associations or institutions it represents in various capacities which involve payment of guaranteed rights fees. Guaranteed rights fee expense that is not related to specific events is recognized evenly over each annual term specified in the contract. The Company s contractual arrangements with associations or institutions may also involve net profit sharing arrangements based on the net profit associated with services rendered under the contract. Profit split expense is accrued over the contract period, based on estimates, and is adjusted at the end of the contract term in order to reflect the actual profit split. Estimates used in the determination of profit split expense are updated monthly and adjusted to actual when the profit split settlement is determined at the end of each contract year.

Goodwill and Other Intangible Assets

The Company s accounting for goodwill is based on Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, or SFAS 142. Under the provisions of SFAS 142, the Company is not required to amortize goodwill, but is required to assess on at least an annual basis, the carrying value of goodwill associated with each of four distinct business units that comprise two business segments of the Company s continuing operations to determine if an impairment in value has occurred. Until August 31, 2003, such an assessment was also required in connection with a discontinued business segment. Impairment charges are recorded if and when management concludes that the carrying amount of goodwill for any acquired business unit does not exceed its net realizable value based on the Company s estimate of expected future cash flows to be generated by each of the business units. In prior years, based on a valuation model incorporating expected future cash flows in consideration of historical cash flows and operating results, goodwill impairment charges have been necessary to reduce the carrying value of goodwill to net realizable value, as further discussed in Note 8 to the consolidated financial statements.

The impairment analysis is based on the Company s estimates of the net present value of future cash flows derived from each of four business units, and judgment is used in assessing whether the impairment analysis should be performed more frequently than annually. The determination of fair value requires significant management judgment including estimating operating cash flow to be derived in each of the four business units for the following three years, annual operating cash flow growth rates for each business unit beyond the next three years, changes in working capital, capital expenditures and the selection of an appropriate discount rate. For each of two of the four business units, a future reduction in the estimated net present value of future cash flows derived from an affected business unit would likely result in an impairment charge that could approximate the amount of the reduction in the estimated net present value calculated for that business unit. Factors potentially leading to a reduction in the estimated present value of future cash flows could include (i) the loss of a significant customer or contract, (ii) significantly less favorable terms of new contracts and contract renewals, and (iii) prolonged economic downturns affecting corporate advertising spending.

If the Company concludes in the future that the adjusted carrying value of goodwill for any of the four business units comprising the Company s continuing operations exceeds its respective net realizable value, the Company would expense such excess and decrease goodwill as reported in the consolidated balance sheet.

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Other purchased intangibles, including customer relationships, are amortized over a 16-year average life. The use of a 16-year average life for customer relationships acquired in the acquisition of Host, amortized on a straight-line method, is not materially different from using the estimated life of each individual relationship using a systematic allocation method. The remaining value assigned to acquisition intangibles other than goodwill will continue to be amortized over a 16-year average life, at a rate of approximately $0.7 million per year. In prior years, the Company has determined that impairment charges have been necessary to reduce the carrying amount of certain customer relationship intangible assets, as further discussed in Note 8 to the consolidated financial statements. If the Company concludes in the future that significant changes occur in its customer relationships, additional impairment charges may be necessary.

Goodwill and intangible assets, net of accumulated amortization, were approximately $48.0 million as of August 31, 2005 and $48.7 million as of August 31, 2004, of which, goodwill was approximately $40.4 million as of each date. The carrying value of goodwill and acquired intangibles, net of accumulated amortization, represented approximately 74% of the Company s total assets as of August 31, 2005.

Deferred Income Taxes

Deferred income tax liabilities or assets at the end of each period are determined using the tax rate expected to be in effect when the taxes are actually paid or recovered. A valuation allowance is recognized on certain deferred tax assets if it is more likely than not that some or all of these deferred tax assets will not be realized. As of August 31, 2005 the Company has recognized a full valuation allowance for net deferred tax assets thereby resulting in a carrying amount for deferred taxes in the balance sheet of zero. If and when the Company generates taxable income in the future and benefits primarily from net operating loss carryforwards for federal tax purposes that expire beginning in 2018, some or all of the deferred tax assets may be reinstated on the balance sheet, and the Company would report income tax benefits in the period that such reinstatement occurs.

Valuation of Certain Non-Trade Receivables

As of August 31, 2005, the Company has a non-trade subordinated note receivable from the purchaser of Datasouth Computer Corporation, or Datasouth, the Company s former computer printer manufacturing company. The Company performs ongoing credit evaluations of parties from which such non-trade receivables are due, and if and when management determines that the carrying value of such receivables may not ultimately be realized, the estimated impairment amount is charged to the earnings (losses) reported for the period in which the determination is made. In the fiscal year ended August 31, 2003, a $1.7 million impairment charge reduced the carrying amount of the Company s note receivable from the purchaser of Datasouth to estimated net realizable value. As a result of payments received on the note subsequent to the adjustment to net realizable value, the carrying amount of the subordinated note receivable has been reduced to approximately $0.8 million as of August 31, 2005.

The estimated reserve on the note issued by the purchaser of Datasouth is based on management s estimate of amounts ultimately collectible on the note upon consideration of modifications made to the agreement, payment history and an understanding of the financial condition of the note issuer, among other factors. If there would be evidence of unfavorable conditions affecting the ultimate collection of the carrying value, such as an unfavorable trend in payment history or unfavorable changes in the note issuer s financial condition, additional impairment charges may become necessary in future periods.

Transactions with Related Parties

The terms of all material transactions involving related persons or entities have been on terms similar to those of Company transactions with independent parties, or in cases where the Company has not entered into similar transactions with unrelated parties, on terms that were then believed to be representative of those that would likely be negotiated with independent parties. All material transactions with related parties are reviewed and approved by the independent

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directors of the Company. Although the Company might not have been otherwise able to enter into an agreement with an independent party to personally guarantee the Company s bank debt, the terms by which the Company s Chairman has been compensated for such personal guarantee were approved by the Company s shareholders at the Company s annual meeting of shareholders on January 7, 2004.

LIQUIDITY AND CAPITAL RESOURCES

Credit Arrangements

As of August 31, 2005, the Company s indebtedness to its bank lenders was approximately $58.9 million. In October 2005, the bank credit agreement was amended to provide an additional $3 million in available financing, all of which was borrowed in October 2005. The agreement, having a maturity date of November 15, 2006 at which time all remaining amounts outstanding become due and payable, requires quarterly principal payments of $2.5 million each beginning February 28, 2006. The Company s ability to meet the principal payment requirements is contingent upon continued investments in the Company s debt or equity securities or cash advances by the Company s Chairman. The agreement provides for no additional borrowing capacity beyond the additional $3 million borrowed in October 2005. The agreement requires the maintenance of interest coverage ratios, which are measured quarterly.

The Company s debt to the banks is collateralized by a lien on all of the Company s assets. In addition, the Company s Chairman personally guarantees substantially all of the debt outstanding under the bank credit agreement, and if the Company is unable to meet payment obligations under the agreement, it is likely that the bank lenders would call the guarantee, thereby requiring the Chairman to repay the amount of the loan to the banks. The Chairman s guarantee is collateralized by certain personal holdings of marketable securities pledged to the Company s bank lenders. Under the terms of his guarantee, the Chairman has the option to purchase the entire loan from the banks, and thereby become the holder of the debt currently payable to the banks and the related lien on the Company s assets. Through January 26, 2005, the Chairman has been compensated by the Company for his guarantee in the form of newly issued shares of the Company s common stock, valued at an annual rate of 1.625% of the guarantee amount. In August 2005, in return for the consideration that he is expecting to receive in the proposed merger with TCM, the Chairman agreed to permanently waive his right to receive compensation accrued since January 26, 2005. The guarantee amount will reduce in the future if principal payments are made to the bank lenders on the outstanding term loans, and may increase if additional bank financing is made available to the Company.

In September 2004, a company under the Chairman s control provided the Company $1.5 million of cash which was used for working capital purposes, in exchange for a subordinated note bearing interest at 6% per annum. This note was refinanced by another company under the Chairman s control, by substituting a subordinated note bearing interest at 6% per annum, having a maturity date of December 31, 2006, as amended in October 2005. In January 2005, $1.5 million was received from the Company s Chairman and used for working capital purposes. During the fiscal year ended August 31, 2004, the Company received approximately $6.6 million from the Company s Chairman, of which $2 million was invested in newly-issued shares of the Company s preferred stock. The remaining investment of $4.55 million, plus the $1.5 million received in January 2005, is presented in the consolidated balance sheet as Advances from stockholder. If the TCM merger is consummated, the current terms of the merger provide that these advances, combined with shares of Bull Run preferred stock owned by the Chairman and his affiliates, along with all accrued dividends thereon, would be exchanged for shares of TCM preferred stock.

In connection with the credit agreement, as amended in October 2005, the Chairman committed to the Company an additional aggregate cash investment of up to $10 million as and when needed to fund the required principal payments on the bank debt. Under the terms of the amended bank credit facility, the Chairman is entitled to have returned to him certain marketable

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securities pledged by him on his personal guarantee at the time of and valued at the amount of each principal payment made by the Company on the outstanding balance of the bank debt, subject to the maintenance of margin requirements on the value of the pledged marketable securities. Under the terms of the credit agreement, up to an aggregate of $15 million in future funding for working capital purposes, if necessary, could be sourced from the issuance of equity securities, including shares of the Company s preferred stock, or by the issuance of subordinated debt.

As amended in October 2005, the Company s bank credit agreement provides for (a) two term loans (the Term Loans) for borrowings totaling approximately $35.9 million and (b) two revolving loan commitments (the Revolvers) for aggregate maximum borrowings of $26 million. All amounts outstanding bear interest at either (a) the banks prime rate or (b) the London Interbank Offered Rate (LIBOR) plus 2.75%, payable monthly. The Company anticipates that it will continue to utilize fully the availability under the Revolvers throughout the remaining term of the credit agreement.

In connection with the acquisition of Host in December 1999, the Company issued 8% subordinated notes, representing long-term debt of approximately $8.7 million as of August 31, 2005. Interest is payable quarterly in cash on all but a $3.0 million subordinated note payable to the Company s Chairman, on which interest is payable at maturity in the form of cash or shares of the Company s common stock, at the Company s option. The 8% subordinated notes have a maturity date of December 31, 2006, as amended in October 2005. Payment of interest and principal on all subordinated notes is subordinate to the Company s bank credit agreement.

Due to negative operating cash flow generated in the past, the Company currently has trade payables and other cash obligations that exceed its current assets. In the fiscal years ended August 31, 2005 and 2004, the Company s Chairman provided an aggregate total of $3.0 million and $6.6 million, respectively, in cash that was used for operating purposes. The Chairman has also committed to fund, if necessary, cash for the Company to meet the quarterly principal payment requirements under the bank credit facility, as amended in October 2005, totaling $10 million before the November 2006 maturity of the facility. Funding of some or all of these payments is likely to be necessary for the Company to continue as a going concern for the next 12 months. While there can be no assurance, based upon (a) the Company s forecasted operating cash flows and capital expenditures for its fiscal year ending August 31, 2006, and (b) the commitment from the Chairman to invest cash of up to $10 million to meet all principal payment requirements prior to the November 15, 2006 maturity date of the Company s bank credit agreement, management believes the Company has sufficient liquidity through at least the November 15, 2006 maturity date of its bank credit agreement. Prior to the November 15, 2006 maturity date, the Company anticipates that it will be required to refinance the total amount due and payable to the banks at that time. The Company s ability to continue this or similar financing beyond the November 15, 2006 maturity date is significantly dependent on the continued support of the Company s Chairman and, in part, on the Company s future operating results. There can be no assurances with respect to either the Company s future operating results or the continued support of its Chairman. In exchange for cash advances made in the past or in the future by the Company s Chairman, his affiliates and/or other parties, the Company may (a) issue and sell equity securities of the Company, which may include the Company s preferred stock; (b) issue additional subordinated debt; or (c) a combination thereof. The use of future cash investments or advances in excess of an aggregate $15.0 million for purposes other than the reduction of the bank debt would require approval of the Company s bank lenders. The Company s capital expenditures are not expected to exceed $400,000 for the fiscal year ending August 31, 2006.

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Historical Cash Flow Information Summary

The following summarizes the Company s historical cash flow activities (amounts in 000 s):

	Year Ended August 31,		
	2005	2004	2003
Cash flows from operating activities:			
Continuing operations	$ (4,579)	$ (4,130)	$ 6,831
Discontinued operations	(1,558)	(6,363)	(11,918)
Cash flows from investing activities:			
Continuing operation investing activities	(207)	(533)	45,290
Discontinued operation investing activities	1,333	447	(117)
Cash flows from financing activities	4,708	6,509	(35,963)
Net increase (decrease) in cash and cash equivalents	$ (303)	$ (4,070)	$ 4,123

Historical Cash Flow Information Cash Flows from Operating Activities

The following summarizes the Company s historical cash flows from operating activities (amounts in 000 s):

	Year Ended August 31,		
	2005	2004	2003
Operating income (loss) from continuing operations	$ 1,653	$ (2,694)	$ (21,012)
Depreciation, amortization and impairment charges included in operating income (loss)	1,339	5,700	32,949
Interest expense, net of noncash preferred stock dividends	(4,421)	(4,416)	(8,005)
Net change in operating assets and liabilities	(3,142)	(2,570)	2,893
Other changes in operating cash flows	(8)	(150)	6
Total cash flows from continuing operations	(4,579)	(4,130)	6,831
Cash flows from discontinued operating activities	(1,558)	(6,363)	(11,918)
Total cash flows from operating activities	$ (6,137)	$ (10,493)	$ (5,087)

The net change in operating assets and liabilities had a negative impact on total cash flows from continuing operations during the fiscal years ended August 31, 2005 and 2004, and a positive impact during the fiscal year ended August 31, 2003. During the fiscal years ended August 31, 2005 and 2004, cash available at the beginning of each period was used toward the reduction of accounts payable and accrued expenses by $1.6 million and $3.7 million, respectively, compared to an increase in accounts payable and accrued expenses of $2.6 million in the fiscal year ended August 31, 2003. Accounts receivable increased $5.4 million in the fiscal year ended August 31, 2005, and decreased $2.4 million and $0.8 million in the fiscal years ended August 31, 2004 and 2003, respectively. The increase in accounts receivable during the fiscal year ended August 31, 2005 was due to an increase in total revenues compared to the prior fiscal year, and a more concerted effort at the end of the current fiscal year to accelerate the invoicing of customers under advertising agreements which incorporate installment billing arrangements. Decreases in accounts receivable during each of the fiscal years ended August 31, 2004 and 2003 resulted primarily from a reduction in revenues derived in the thirty to sixty days preceding the end of those periods, particularly in 2004, since most of the Company s collegiate properties began their college football seasons in September 2004 as compared to August in 2003. The Company s total cash flows from continuing operations were also used to fund interest expense. Interest paid, net of interest income received and accrued preferred stock dividends reported as interest expense, was $4.5 million, $4.4 million and $8.3 million for fiscal years ended August 31, 2005, 2004 and 2003, respectively, with the reduction from 2003 caused by the decrease in total outstanding debt and reductions in interest rates to which the debt is subject.

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