BULL RUN CORP
Form 10-K
November 29, 2004

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
or
[ ] 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**<br>(State or other jurisdiction incorporation or organization) | **58-2458679**<br>(I.R.S. Employer Identification No.) |
| **4370 Peachtree Road, N.E., Atlanta, GA**<br>(Address of principal executive offices) | **30319**<br>(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. [X] Yes [ ] 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. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). [ ] Yes [X] No

The aggregate market value of the voting and non-voting common equity held by non-affiliates was $1,094,623 based on the price at which Bull Run s common stock was last sold on February 27, 2004, 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 November 22, 2004 was 6,413,879.

**DOCUMENTS INCORPORATED BY REFERENCE**

| Documents | Form 10-K Reference |
|---|---|
| Portions of the Definitive Proxy Statement for the 2004 Annual Meeting of Shareholders, to be filed not later than December 29, 2004 | Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14 |

**BULL RUN CORPORATION**
**FORM 10-K**
**For the fiscal year ended August 31, 2004**

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## PART I

### Item 1. Business

### General

Bull Run Corporation ( Bull Run or the Company ), based in Atlanta, Georgia, is a sports and affinity marketing, printing and publishing, and association management company through its sole operating business, Host Communications, Inc. ( Host ), acquired in December 1999 (the Host-USA Acquisition ). Host s Collegiate Marketing and Production Services business segment provides sports marketing and production services to a number of collegiate conferences and universities, and on behalf of the National Collegiate Athletic Association ( 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 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. As a result, the Affinity Events segment has been reflected in the Company s financial statements as a discontinued operation.

In January 2004, the Company determined that that it would not be engaged in providing consulting services to Gray Television, Inc. ( Gray ), a business whose executive officers are also executive officers of the Company, or any other party in the future. Previously, the Company periodically provided consulting services to Gray in connection with Gray s acquisitions and dispositions. As a result, the Consulting segment has likewise been reflected in the Company s financial statements as a discontinued operation.

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 Supplemental 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: (a) the production of radio and television broadcasts of certain athletic events and coaches shows; (b) sale of advertising during radio and television broadcasts of games and coaches shows; (c) sale of media advertising and venue signage; (d) sale of official sponsorship rights to corporations; (e) publishing, printing and vending of game-day and other programs; (f) creative design of materials, video production, and construction and management of Internet web sites; and (g) coaches endorsements and pay-per-view telecasts. Institutions and organizations with which the Company has agreements are the University of Arizona, Boston College, Florida State University, the University of Kentucky, the University of Michigan, Mississippi State University, Oklahoma State University, the University of Tennessee, the University of Texas, the Metro Atlantic Athletic Conference and the Southeastern Conference. The Company also has marketing rights to the SBC Red River Shootout featuring the University of Texas and University of Oklahoma s annual football rivalry, and the Lone Star Showdown series of games featuring Texas and Texas A&M University. The Company has published Dave Campbell s Texas Football Magazine and has had marketing rights to an annual series of football games that features six prominent Texas high school teams.

Contracts with institutions and organizations for marketing and production services are generally three to five years in length and require the Company to pay to the institution or organization: (a)

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an annual guaranteed rights fee; (b) a percentage of revenues or profits derived from the relationship; or (c) a combination thereof.

***NCAA Group*** Under an agreement with CBS Sports (the Host-CBS Contract ), 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. The Host-CBS Contract expires in 2005, however the Company is currently negotiating with CBS a three-year extension of these printing and publishing rights.

In addition to the sublicensing rights through CBS Sports, the Company has an exclusive license with NCAA Football USA, Inc. ( NCAA Football ), a separate 501(c)(4) entity organized to promote college football. Under the terms of this agreement, the Company 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*** 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 non-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 (formerly called Affinity Management Services), provides a full range of management services to multi-national associations, including CrossSphere (formerly the National Tour Association, a nearly 4,000-member global association for the packaged travel industry, which has been a client since 1974), Quest (the J.D. Edwards software user group association) and the International SPA Association. 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**

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. In August 2004, the Company announced its plan to suspend the Events business and offer it for sale.

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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. Gray has stated that it does not intend to engage the Company for such services in the future and during the fiscal year ended August 31, 2004, the Company determined that it did not intend to pursue such business from Gray or any other party in the future.

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 provides advertising and sponsorship opportunities to a variety of corporate clients having access to all of the Company s vertically-integrated fulfillment capabilities. 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 five years in length. However, a renewal of the Company s contract with the University of Kentucky was recently executed covering a period of ten years. The Company intends to continue to seek long-term sponsorship 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 generally solicits local sponsorships and advertising, complemented by a national/regional sales team. Personnel assigned to university and athletic conference properties are generally located at the particular university campuses or athletic conference location.

**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. The Company believes that certain of its competitors have capabilities and resources comparable to and in some respects greater than those of the Company; however, the Company does not believe that there is any other competitor that currently provides all of the marketing and integrated media services offered by the Company. The Company s success will depend in part on its ability to create value-added marketing opportunities that utilize its uniquely wide range of service capabilities.

**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.

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## Employees

The Company has approximately 275 full-time employees, of whom, approximately 215 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.

## Available Information

The Company s Internet address is www.bullruncorp.com, where the Company makes available, free of charge, the Company s 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 the Company s 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 450 Fifth Street, N.W., 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 vacant office space under lease in New York City through August 2010 which is being marketed for sublease. 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. ( Tarzian ) common stock, $4.00 par value, (the Tarzian Shares ) from the Estate of Mary Tarzian (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,

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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 for breach of contract and awarded Tarzian $4.0 million in damages. On June 23, 2003, the Court denied the Estate s renewed motion for judgment as a matter of law, and alternatively, for a new trial on the issue of liability; denied Tarzian s motion to amend the judgment to award Tarzian specific performance of the contract and title to the Tarzian Shares; and granted Tarzian s motion to amend the judgment to include pre-judgment interest on the $4.0 million damage award. The Estate has appealed the judgment and the Court s rulings on the post-trial motions and Tarzian has cross-appealed. The Company cannot predict when the final resolution of this litigation will occur.

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. 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.

**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, 2004.

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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 traded on the Pink Sheets (www.pinksheets.com) centralized quotation service for OTC securities. Until January 2004, it 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, a quotation service for over-the-counter securities, and previously, by The Nasdaq Stock Market. Such prices reflect interdealer prices without adjustments for retail markups, markdowns or commissions. Per share amounts have been retroactively adjusted for a 1-for-10 reverse stock split effective May 18, 2003.

| | High | Low |
|---|---|---|
| **Fiscal Year Ended August 31, 2003** | | |
| First Quarter ended November 30, 2002 | $ 7.20 | $4.30 |
| Second Quarter ended February 28, 2003 | 10.20 | 3.00 |
| Third Quarter ended May 31, 2003 | 5.70 | 3.00 |
| Fourth Quarter ended August 31, 2003 | 3.78 | 2.74 |
| **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 |

**Holders**

As of November 11, 2004, there were 2,193 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.

**Equity Plan Compensation Information**

The information required by the item is set forth under the caption Management Compensation -Equity Plan Compensation Information in the Company s Proxy Statement to be filed with the Commission not later than 120 days after the end of the Company s fiscal year, which is incorporated by reference herein.

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### Recent Sales of Unregistered Securities

On October 8, 2003, certain holders of the Company s subordinated notes exchanged subordinated debt having an aggregate face amount of approximately $8.0 million for an aggregate 8,016 shares of the Company s series E convertible preferred stock ( Series E Preferred Stock ), including subordinated notes having an aggregate face amount of approximately $5.3 million acquired by the Company s Chairman immediately prior to the exchange. Also on October 8, 2003, 1,783 shares of the Company s series D convertible preferred stock ( Series D Preferred Stock ) issued to a former director of the Company and his spouse (both of whom were formerly holders of subordinated notes and parties to an exchange of their subordinated notes for the shares of Series D Preferred Stock in the fiscal year ended August 31, 2003) were exchanged for the same number of shares of Series E Preferred Stock. Each share of the Series E Preferred Stock is convertible at the holder s option into 0.14286 shares of the Company s common stock beginning one year following the date of issuance of the Series E Preferred Stock (initially, October 8, 2004).

On November 26, 2003, the Company issued 2,000 shares of the Company s series F convertible preferred stock ( Series F Preferred Stock ) to the Company s Chairman, for cash of $2.0 million. Each share of the Series F Preferred Stock is convertible at the holder s option into 0.78125 shares of the Company s common stock beginning in November 2006.

The issuance of shares of Series E Preferred Stock and Series F Preferred Stock were made under the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, because the issuances did not involve any public offering.

### Item 6. Selected Financial Data

Set forth below are certain selected historical consolidated financial data of the Company. 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. The selected consolidated financial data as of and for the fiscal years ended August 31, 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, and for the year ended June 30, 2000 are derived from unaudited condensed consolidated financial statements of the Company.

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The Company discontinued its Consulting and its Affinity Events business segments during the fiscal year ended August 31, 2004. As a result, all historical financial information included in the Selected Financial Data presents the operating results of the Consulting and Affinity Events business segments as discontinued operations, and all current liabilities of the discontinued segments, net of current assets and all noncurrent liabilities of such segments, as discontinued.

## SELECTED FINANCIAL DATA

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

**OPERATING RESULTS:**

| | Year Ended August 31, | | Two Months Ended August 31, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 |
| Total revenue | $ 55,779 | $ 64,129 | $ 4,591 | $ 7,853 |
| Direct operating costs | (35,699) | (42,603) | (2,854) | (5,233) |
| Selling, general and administrative | (18,220) | (20,397) | (3,766) | (4,199) |
| Amortization and impairment of acquisition intangibles | (4,554) | (22,141) | (183) | (150) |
| Loss from operations | (2,694) | (21,012) | (2,212) | (1,729) |
| Equity in losses of affiliated companies | | (204) | (110) | (554) |
| Other income (expense) derived from investments in affiliates, net | | 9,622 | | (250) |
| Net change in value of derivatives | 1,294 | (1,035) | (423) | (632) |
| Interest expense and other, net | (5,737) | (10,593) | (1,201) | (1,948) |
| Loss from continuing operations before income taxes and cumulative effect | (7,137) | (23,222) | (3,946) | (5,113) |
| Income tax benefit (provision) | | (5,222) | | 1,623 |
| Loss from continuing operations | (7,137) | (28,444) | (3,946) | (3,490) |
| Income (loss) from discontinued operations, net of tax | (7,474) | (9,542) | (1,409) | 62 |
| Net loss | (14,611) | (37,986) | (5,355) | (3,428) |
| Preferred dividends | (2,237) | (1,149) | (93) | (45) |
| Net loss available to common stockholders | $(16,848) | $(39,135) | $(5,448) | $(3,473) |

See Notes to the Selected Financial Data on page 11.

**SELECTED FINANCIAL DATA, continued**

**OPERATING RESULTS:**

| | Year Ended June 30, | | |
|---|---|---|---|
| | **2002** | **2001** | **2000** |
| Total revenue | $ 93,813 | $ 96,136 | $ 59,377 |
| Direct operating costs | (75,567) | (66,337) | (40,974) |
| Selling, general and administrative | (24,065) | (25,596) | (16,490) |
| Amortization and impairment of acquisition intangibles | (7,707) | (4,406) | (2,717) |
| Loss from operations | (13,526) | (203) | (804) |
| Equity in earnings losses of affiliated companies | (2,912) | (4,235) | (2,533) |
| Correction of purchase price allocation | | | (11,330) |
| Other income (expense) derived from investments in affiliates, net | 242 | (6,796) | (2,360) |
| Net change in value of derivatives | (3,345) | 2,988 | |
| Interest expense and other, net | (12,042) | (11,891) | (7,909) |
| Loss from continuing operations before income taxes and cumulative effect | (31,583) | (20,137) | (24,936) |
| Income tax benefit | 1,925 | 5,114 | 4,806 |
| Loss from continuing operations before cumulative effect, net of tax | (29,658) | (15,023) | (20,130) |
| Cumulative effect of accounting change, net of tax | (2,620) | (1,120) | |
| Loss from continuing operations | (32,278) | (16,143) | (20,130) |
| Loss from discontinued operations, net of tax | (2,280) | (2,561) | (7,694) |
| Net loss | (34,558) | (18,704) | (27,824) |
| Preferred dividends | (396) | | |
| Net loss available to common stockholders | $(34,954) | $(18,704) | $(27,824) |

**LOSS PER SHARE:**

| | Year Ended August 31, | | Two Months Ended August 31, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 |
| Loss per share available to common stockholders - Basic and Diluted: | | | | |
| Loss available to common stockholders from continuing operations | $ (2.01) | $ (7.42) | $ (1.07) | $ (0.98) |
| Income (loss) from discontinued operations, net of tax | $ (1.60) | $ (2.40) | $ (0.37) | $ 0.02 |
| Net loss available to common stockholders | $ (3.61) | $ (9.82) | $ (1.44) | $ (0.96) |
| Weighted average shares outstanding - Basic and Diluted | 4,668 | 3,987 | 3,793 | 3,599 |

**LOSS PER SHARE:**

| | Year Ended June 30, | | |
|---|---|---|---|
| | 2002 | 2001 | 2000 |
| Loss per share available to common stockholders - Basic and Diluted: | | | |
| Loss available to common stockholders from continuing operations before cumulative effect of accounting change | $ (8.24) | $ (4.25) | $ (6.93) |
| Loss available to common stockholders from continuing operations | $ (8.96) | $ (4.57) | $ (6.93) |
| Loss from discontinued operations, net of tax | $ (0.62) | $ (0.73) | $ (2.65) |
| Net loss available to common stockholders | $ (9.58) | $ (5.30) | $ (9.58) |
| Weighted average shares outstanding - Basic and Diluted | 3,649 | 3,531 | 2,904 |

See Notes to the Selected Financial Data on page 11.

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**SELECTED FINANCIAL DATA, continued**

**FINANCIAL POSITION:**

| | As of August 31, | | | As of June 30, | | |
|---|---|---|---|---|---|---|
| | **2004** | **2003** | **2002** | **2002** | **2001** | **2000** |
| Working capital (deficit) | $(19,146) | $(12,034) | $ (32,252) | $ (26,827) | $ (16,951) | $ 5,449 |
| Investment in affiliated companies | | | 25,013 | 25,115 | 50,399 | 64,782 |
| Total assets | 60,942 | 73,812 | 143,780 | 151,007 | 201,061 | 227,787 |
| Long-term obligations | 64,625 | 72,641 | 93,091 | 98,091 | 107,693 | 122,794 |
| Stockholders equity (deficit) | (56,551) | (27,002) | (2,188) | (1,274) | 37,604 | 51,864 |

**NOTES TO THE SELECTED FINANCIAL DATA**

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

2004 Intangibles impairment charge of $3.3 million; and the classification of redeemable preferred stock of $24.3 million as noncurrent liabilities (of which, $19.7 million is held by the Company s Chairman or one of his affiliates) due to the Chairman owning more than 50% of the Company s outstanding common stock as of August 31, 2004 (such preferred stock was previously included as a component of stockholders deficit).

2003 Sale of investments in Gray common stocks, warrants for Gray common stocks and Rawlings 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 Tarzian 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.

2001 First full year of Host operating results included in the Company s consolidated financial statements; $9.0 million pretax charge recognized to reduce book value of certain equity investments; and the change in accounting for certain derivatives resulting in a cumulative effect adjustment, which also resulted in the initial inclusion of the net change in the value of derivatives in the Company s operating results.

No dividends were declared or paid during the periods presented.

Certain reclassifications for the presentation of the Company s Affinity Events and Consulting business segments as discontinued operations have been made in the results of operations and financial position for all prior periods to conform to the August 31, 2004 presentation.

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

**OVERVIEW**

Bull Run Corporation ( Bull Run or the Company ), based in Atlanta, Georgia, is a sports and affinity marketing and management company through its sole operating business, Host Communications, Inc. ( Host ), acquired in December 1999 (the Host-USA Acquisition ). Host s Collegiate Marketing and Production Services business segment provides sports marketing and production services to a number of collegiate conferences and universities, and on behalf of the National Collegiate Athletic Association ( NCAA ). Host s Association Management Services (formerly called Affinity 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.

The Company discontinued its Consulting and its Affinity Events business segments during the fiscal year ended August 31, 2004. In January 2004, the Company determined

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that it would not be engaged in consulting services to Gray Television, Inc. ( Gray ), an affiliated party, or any other party in the future. In August 2004, the Company announced its decision to suspend the Affinity Events business, and declared its intent to offer the business unit for sale. Accordingly, the operating results and net assets associated with the Consulting and the Affinity Events business segments as of and for the fiscal year ended August 31, 2004 and all prior periods presented herein have been reflected as discontinued operations in the accompanying consolidated financial statements. The Company has reached an agreement to sell the assets associated with the basketball and soccer tours operated within the Affinity Events business segment. The transaction is expected to close within the next 30 days. Accrued restructuring charges associated with the discontinuation of this segment have been reduced by the estimated amount of proceeds to be ultimately derived from the sale. Actual amounts ultimately realized on the sale and any other unanticipated income or expenses, including income from the future subleases of vacated office space, could differ materially from amounts assumed in arriving at the loss on termination of the business. To the extent actual proceeds or other amounts differ from the estimates that are reflected as of August 31, 2004, or as management s estimates are revised, the variance will be reported in discontinued operations in future periods. Likewise, the results of any remaining Events operations occurring subsequent to August 31, 2004 will be reported in discontinued operations in future periods.

**CERTAIN RELATIONSHIPS**

J. Mack Robinson, Chairman of the board of the Company, is the beneficial owner of approximately 57.0% of the Company s common stock as of November 22, 2004, 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 88.4% 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 28.8% of the combined voting power of Gray s two classes of common stock as of March 22, 2004. 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 2.6% of the combined voting power of Gray s two classes of common stock as of March 22, 2004. 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 7.0% 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.

As of August 31, 2004, W. James Host, a director of the Company until his resignation in January 2004, owned along with his wife, shares of the Company s convertible preferred stock having an 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. 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.

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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. The agreement commenced April 1, 2000 and terminates after five years. As a result of the rights-sharing agreement, Gray may be called upon for payment of a share of certain guaranteed rights fees. During the fiscal year ended August 31, 2004, Gray had paid approximately $1.5 million under this provision, and as of August 31, 2004, the Company has accrued fees payable to Gray of approximately $1.7 million.

## 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. Corporate sponsor license fee revenue that is not related to specific events is recognized ratably over the term of the sponsorship. 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 ratably over the term specified in the contract. The Company s contractual arrangements with associations or institutions may also involve net profit sharing arrangements ( profit splits ) 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.

***Goodwill and Other Intangible Assets -***

Prior to July 1, 2001, goodwill was amortized over 20 years. Effective July 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, ( SFAS 142 ) which eliminated the requirement to amortize goodwill, and also affected the Company s accounting for its equity in losses of affiliated companies. Under the provisions of SFAS 142, the Company is required to periodically assess 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. Prior to the fiscal year ended August 31, 2004, such an assessment was also required in connection with a discontinued business segment. Annual impairment tests prior to the fiscal year ended August 31, 2003 concluded that the carrying amount of goodwill for each acquired business unit did 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. However, the Company updated its assessment as of August 31, 2003 and concluded that based on a valuation model incorporating expected future cash flows in consideration of historical cash flows and operating results, a goodwill impairment charge of $23.4 million was necessary to reduce the carrying value of goodwill to net realizable value, $2.4 million of which was attributable to the discontinued business segment. Management further determined that an additional goodwill impairment charge of $3.3 million was necessary during the fiscal year ended August 31, 2004, upon management s consideration of current fiscal year operating results and the forecasted operating results and business plans for one of the Company s business units. 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.

Other purchased intangibles, including customer relationships, are amortized primarily 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. Prior to the fiscal year ended August 31, 2003, the Company determined that an impairment charge of approximately $6.6 million was necessary to reduce the carrying amount of certain customer relationship intangible assets as a result of a significant change in the contractual nature of the Company s underlying relationship with the NCAA. An updated impairment analysis performed as of August 31, 2003 indicated the need for an additional charge to reduce customer relationships and other acquisition intangibles by approximately $7.0 million at that date, all of which was attributable to a discontinued operating segment. If the Company concludes in the future that significant changes occur in its customer relationships, additional impairment charges may be necessary.

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. The use of a 16-year average life of customer relationships amortized on a straight-line method is not materially different than using the estimated life of each individual relationship using a systematic allocation method.

Goodwill and intangible assets, net of accumulated amortization, were approximately $48.7 million as of August 31, 2004 and $53.2 million as of August 31, 2003, of which, goodwill was approximately $53.2 million and $43.7 million as of each date, respectively. The carrying value of goodwill and acquired intangibles, net of accumulated amortization, represented approximately 80% of the Company s total assets as of August 31, 2004.

***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, 2004 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.

***Derivative Instruments and Hedging Activities -***

Effective July 1, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Investments and Hedging Activities ( SFAS 133 ). SFAS 133 requires the Company to recognize all derivative instruments (i.e., interest rate swap agreements, and until sold in April 2003, warrants to purchase additional shares of Gray common stocks) on the balance sheet at fair value. The aggregate fair market value of derivatives as of August 31, 2004 and August 31, 2003 of approximately $(0.4) million and $(1.7) million, respectively, is included in the Company s balance sheet as a component of Other liabilities. Changes in the estimated fair value of derivatives that do not meet the specific criteria in SFAS 133 for hedge accounting are included in the earnings (losses) reported for the period of the change. None of the Company s derivative instruments have

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been determined to qualify for hedge accounting treatment. Management estimates the fair value of interest rate swap agreements based on estimated market values provided by the counterparties to the swap agreements.

***Valuation of Certain Non-Trade Receivables -***

In the fiscal year ended August 31, 2003, the Company recorded an impairment charge of approximately $5.2 million associated with its investment in and amounts due from iHigh and an impairment charge of approximately $1.7 million associated with a note receivable from the purchaser of Datasouth Computer Corporation ( Datasouth ), the Company s former computer printer manufacturing company. The Company performs ongoing credit evaluations of parties from 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. The impairment charges reduced the carrying amount of the investment in and amounts due from iHigh to zero, and the Company s note receivable from the purchaser of Datasouth to approximately $1.7 million as of August 31, 2003. As a result of payments received on the note subsequent to the adjustment to net realizable value at August 31, 2003, the carrying amount of the note receivable has been further reduced to approximately $1.2 million as of August 31, 2004.

***Recent Accounting Pronouncement -***

In May 2003, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity ( SFAS 150 ). SFAS 150 establishes standards for classification and measurement of certain financial instruments with characteristics of both liabilities and equity. SFAS 150 was effective for the Company as of September 1, 2003 and did not have any impact on the Company s consolidated financial statements until August 31, 2004, at which date the Company s Chairman and his affiliates had increased their ownership of the Company s outstanding common stock to more than 50%. As a result, the Company reclassified, in accordance with SFAS 150, all of the preferred stock issued and outstanding as of August 31, 2004 from Stockholders deficit to noncurrent liabilities. Management does not believe that any of the preferred stock issued to the Chairman or his affiliates or any other party will be redeemed in the foreseeable future, and any such redemption would require the approval of the Company s bank lenders.

## LIQUIDITY AND CAPITAL RESOURCES

As of August 31, 2004, the Company s indebtedness to its bank lenders was approximately $55.9 million. In October 2004, the bank credit agreement was amended and restated to provide an additional $3 million in financing, which was borrowed in October 2004, thereby increasing the bank indebtedness to approximately $58.9 million. The agreement, having a maturity date of November 30, 2005 at which time all amounts outstanding become due and payable, does not require any payments of principal prior to maturity, nor does it provide for any additional borrowing capacity. The agreement requires the maintenance of interest coverage ratios, determined 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

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Chairman has the option to purchase the entire loan from the banks, and thereby becoming the holder of the debt currently payable to the banks and the related lien on the Company s assets. The Chairman is 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. 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 maturing on December 31, 2004. Under the terms of the credit agreement, as amended in October 2004, up to an aggregate of $10 million in additional 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. 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 approximately $4.6 million is presented in the consolidated balance sheet as Advances from stockholder. Management believes that it is the Chairman s intention to convert these advances to subordinated debt or equity securities during the fiscal year ending August 31, 2005. In connection with the credit agreement amendment, the Chairman committed to the Company an additional aggregate cash investment of up to $3 million as and when needed at any time and from time to time on or prior to the maturity date, and provided that up to $1.5 million of such cash investments may be used to repay the $1.5 million subordinated note issued by his affiliated company. Management anticipates that the Chairman will provide at least $1.5 million of his committed cash investment prior to the maturity date of the $1.5 million subordinated note.

As amended in October 2004, 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 $23 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 Host-USA Acquisition, the Company issued 8% subordinated notes, representing long-term debt of approximately $8.7 million as of August 31, 2004. During the fiscal year ended August 31, 2004, holders of 8% subordinated notes representing an aggregate face value of approximately $8.0 million exchanged their notes for shares of Series E Preferred Stock. 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 notes all have a maturity date of January 17, 2006. 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 year ended August 31, 2004, the Company s Chairman provided an aggregate total of $6.6 million in cash used for operating purposes. In September 2004, a Company controlled by the Chairman provided an additional $1.5 million in cash, the proceeds from which were used for operating purposes in exchange for a subordinated note due December 31, 2004. The Company s Chairman has formally committed to the Company to provide up to $3 million in cash prior to the maturity date of the credit agreement at any time if and when needed by

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the Company, of which, up to $1.5 million can be used to repay the subordinated note. Management believes the Company has sufficient liquidity sources, which include the Company s Chairman and his affiliates, to meet its cash obligations until the November 30, 2005 maturity date of its bank credit agreement. Prior to the November 30, 2005 maturity date, the Company anticipates that 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 30, 2005 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 $10 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 $600,000 for the fiscal year ending August 31, 2005.

***Historical Cash Flow Information Summary -***

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

| | Year Ended August 31, | | Two Months Ended August 31, | | Year Ended June 30, |
|---|---|---|---|---|---|
| | **2004** | **2003** | **2002** | **2001** | **2002** |
| | | | | **(unaudited)** | |
| Cash flows from operating activities: | | | | | |
| Continuing operations | $(4,130) | $ 6,831 | $(3,473) | $(2,530) | $ (9,710) |
| Discontinued operations | (6,363) | (11,918) | (522) | 60 | 4,262 |
| Cash flows from investing activities: | | | | | |
| Continuing operation investing activities | (533) | 45,290 | (66) | (74) | 15,760 |
| Discontinued operation investing activities | 447 | (117) | (37) | 981 | 774 |
| Cash flows from financing activities | 6,509 | (35,963) | 3,842 | (2,125) | (13,070) |
| Net increase (decrease) in cash and cash equivalents | $(4,070) | $ 4,123 | $ (256) | $(3,688) | $ (1,984) |

***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, | | Two Months Ended August 31, | | Year Ended June 30, |
|---|---|---|---|---|---|
| | **2004** | **2003** | **2002** | **2001** | **2002** |

| | | | | | |
|---|---|---|---|---|---|
| | | | | **(unaudited)** | |
| Operating loss from continuing operations | $ (2,694) | $(21,012) | $(2,212) | $(1,729) | $(13,526) |
| Depreciation, amortization and impairment charges included in the operating loss | 5,700 | 32,949 | 397 | 377 | 9,006 |
| Interest expense, net of interest income and dividends | (4,416) | (8,005) | (812) | (1,630) | (9,562) |
| Net change in operating assets and liabilities | (2,570) | 2,893 | (865) | 274 | 3,716 |
| Other changes in operating cash flows | (150) | 6 | 19 | 178 | 656 |
| Total cash flows from continuing operations | (4,130) | 6,831 | (3,473) | (2,530) | (9,710) |
| Cash flows from discontinued operating activities | (6,363) | (11,918) | (522) | 60 | 4,262 |
| Total cash flows from operating activities | $(10,493) | $ (5,087) | $(3,995) | $(2,470) | $ (5,448) |

The net change in operating assets and liabilities had an unfavorable impact on total cash flows from continuing operations during the fiscal year ended August 31, 2004, and a favorable impact during the fiscal years ended August 31, 2003 and June 30, 2002. During the fiscal year ended August 31, 2004, cash available at the beginning of the period was used toward the reduction of accounts payable and accrued expenses by $3.7 million, compared to an increase in accounts payable and accrued expenses of $2.6 million in the fiscal year ended August 31, 2003. Accounts receivable decreased $2.4 million and $0.8 million in the fiscal years ended August 31, 2004 and 2003, respectively. Decreases in accounts receivable during each period result from 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, was $4.4 million and $8.3 million for fiscal years ended August 31, 2004 and 2003, respectively, with the reduction caused by the decrease in total outstanding debt and reductions in interest rates to which the debt is subject.

The net change in operating assets and liabilities had a favorable impact on total cash flows from continuing operations in the fiscal year ended June 30, 2002 of $3.7 million. Accounts receivable decreased $9.8 million due to an acceleration of customer payments and a reduction in the total amount of revenue under contract as of June 30, 2002 compared to June 30, 2001.

Until June 30, 2002, the Company generated a significant amount of revenue from sublicensing National Collegiate Athletic Association ( NCAA ) corporate sponsorship rights to major corporations. The Company s final contract with the NCAA (the Host-NCAA Contract ), which provided these rights to the Company, in addition to other rights, ended on August 31, 2002. Deferred revenue declined by $10.3 million during the fiscal year ended June 30, 2002 due to a reduction in the amount of corporate sponsor contracts in place as of June 30, 2002 compared to the prior fiscal year end, and to a lesser extent, the decision of certain corporate sponsors to accelerate the termination date of their multi-year sponsorship contract with the Company from August 31, 2002 to June 30, 2002. The number and amount of corporate sponsor contracts in place as of June 30, 2002 compared to the prior year was directly affected by the fact that Host-NCAA Contract ended in August 2002, and therefore NCAA corporate sponsorships sold by Host could not extend beyond August 2002.

The result of amending the termination dates of certain sponsorship contracts in the fiscal year ended June 30, 2002 and the decision to modify the terms of the Host-CBS Contract in August 2002, was to accelerate revenue (and thereby decreasing deferred income) by approximately $1.5 million, and increasing accrued expenses (primarily guaranteed rights fees payable) by approximately $3.7 million. Other changes in operating cash flows include the income on Gray s option to purchase the Company s investment in Tarzian of approximately $0.3 million in the fiscal year ended June 30, 2002. The option was exercised by Gray in December 2001.

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***Historical Cash Flow Information Cash Flows from Investing Activities -***

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

| | Year Ended August 31, | | Two Months Ended August 31, | | Year Ended June 30, |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2002 |
| | | | | (unaudited) | |
| Capital expenditures | $(384) | $ (230) | $ (44) | $ (52) | $ (235) |
| Investments in and acquisition of businesses | | | | | (705) |
| Proceeds on dispositions of investments | | 46,183 | | | 16,803 |
| Other investing cash flows | (149) | (663) | (22) | (22) | (103) |
| Total cash flows from continuing operation investing activities | (533) | 45,290 | (66) | (74) | 15,760 |
| Cash flows from discontinued operation investing activities | 447 | (117) | (37) | 981 | 774 |
| Total cash flows from investing activities | $ (86) | $45,173 | $(103) | $ 907 | $16,534 |

In the fiscal year ended August 31, 2004, the Company received aggregate payments on the Company s note receivable from the purchaser of Datasouth, a discontinued business segment, of approximately $0.4 million.

In the fiscal year ended August 31, 2003, the Company sold its investment in Rawlings common stock to an unrelated company for cash proceeds of approximately $6.8 million, and sold its investments in Gray common stocks and warrants to purchase additional shares of Gray common stocks to parties affiliated with the Company s Chairman and to Gray for aggregate cash proceeds of approximately $39.4 million.

In the fiscal year ended June 30, 2002, the Company sold investments in Gray series A and series B preferred stock to a company affiliated with the Company s Chairman for cash proceeds of approximately $6.8 million, and sold its investment in Tarzian common stock to Gray under the terms of an option agreement between the Company and Gray, for cash proceeds of $10 million. Also in the fiscal year ended June 30, 2002, aggregate payments of approximately $0.9 million were received on the Company s note from the purchaser of Datasouth.

***Historical Cash Flow Information Cash Flows from Financing Activities -***

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

| | Year Ended August 31, | Two Months Ended August 31, | Year Ended June 30, |
|---|---|---|---|

| | 2004 | 2003 | 2002 | 2001 | 2002 |
|---|---|---|---|---|---|
| Net borrowings (repayments) on notes payable and revolving line of credit | $ | $ 175 | $3,850 | $ (650) | $ 5,600 |
| Net repayments on long-term debt | | (38,000) | | (1,050) | (20,793) |
| Cash advances made by stockholder | 4,550 | | | | |
| Issuance of preferred stock | 2,000 | 3,000 | | | 2,400 |
| Other financing cash flows | (41) | (1,138) | (8) | (425) | (277) |
| Total cash flows from financing activities | $6,509 | $(35,963) | $3,842 | $(2,125) | $(13,070) |

In the fiscal year ended August 31, 2003, the Company reduced its long-term debt as a result of proceeds on the sales of its investment Rawlings common stock, Gray common stocks and warrants to purchase additional shares of Gray common stocks. In the fiscal year ended June 30, 2002, the Company reduced its long-term debt as a result of proceeds received on the sales or other dispositions of investment assets, including the Company s investments in Tarzian and Gray preferred stock, in addition to proceeds received from the purchasers of Datasouth. Proceeds on the issuance of the Company s preferred stock to and cash advances from the Company s Chairman of the board and companies affiliated with the Company s Chairman were used to fund working capital needs in the fiscal years ended August 31, 2004 and 2003, and were used to reduce long-term debt in the fiscal year ended June 30, 2002. Other financing cash flows primarily include cash used for debt issue costs, less proceeds from the exercise of stock options and from other issuances of common stock for cash. There were no discontinued operation financing activities in any of the fiscal periods presented above.

**CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS**

The following summarizes the Company s contractual obligations as of August 31, 2004 (amounts in 000 s):

| | Payments Due by Period as of August 31, 2004 | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 Year** | **More than 1 to 3 Years** | **More than 3 to 5 Years** | **More than 5 Years** |
| Long-term debt obligations | $ 65,215 | $ 590 | $64,625 | $ | $ |
| Capital lease obligations | 234 | 78 | 78 | 78 | |
| Operating lease obligations | 6,137 | 1,821 | 2,024 | 1,308 | 984 |
| Purchase obligations | 83,183 | 16,550 | 28,123 | 13,872 | 24,638 |
| Total | $154,769 | $19,039 | $94,850 | $15,258 | $25,622 |

Operating lease obligations are presented net of future receipts on contracted sublease arrangements totaling approximately $1.1 million as of August 31, 2004.

Purchase obligations primarily consist of future guaranteed rights fee commitments to associations or institutions under contractual arrangements of typically one to five years, which expire at varying times through 2015.

The Company is a party to an interest rate swap agreement described in Note 10 to the Consolidated Financial Statements. The estimated cost of terminating the swap agreement, if the Company elected to do so, was approximately $0.6 million as of August 31, 2004, including accrued interest through that date.

Dividends on Series D Preferred Stock and Series F Preferred Stock are payable annually at an annual rate of $90 per share in cash or in shares of the Company s common stock, at the holder s option, except that, until the second anniversary of the date of issuance, the Company has the option to pay such dividends in cash or in shares of the Company s common stock. For purposes of determining the number of shares of common stock to be issued as payment of a dividend, the common stock is valued at the average market closing price for the twenty trading days immediately preceding each dividend payment date. All dividends accruing through June 30, 2003 on issued shares of the Company s preferred stock have been paid, including Series D Preferred Stock dividends payable to the Company s Chairman through June 30, 2003, having an aggregate value at that time of approximately $0.5 million, paid to the Chairman in January 2004 in the form of 148,713 shares of the Company s common stock, following the Company s stockholders approval of the issuance of such shares. Dividends on Series D Preferred Stock payable through June 30, 2004 in shares of the Company s common stock under the terms of such issuance, have not been declared by the board of directors. Under the Company s Articles of Incorporation, if dividends on any class of its preferred stock are in arrears in an amount equal to 150% of an annual dividend, the holders of such preferred stock shall be entitled to vote for and elect two additional directors of the Company. Such rights would thereby be afforded the holders of Series D Preferred Stock if dividends accrued through June 30, 2004 are not paid by December 31, 2006.

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Dividends on Series E Preferred Stock are payable annually at an annual rate of $90 per share in cash or in shares of the Company s common stock at the holder s option, except that the initial dividend on Series E Preferred Stock is not payable until July 2005 on dividends accruing through June 30, 2005, or upon a conversion of shares of Series E Preferred Stock to shares of the Company s common stock, whichever is sooner. The amount of dividends accruing through August 31, 2004 on the outstanding shares of Series E Preferred Stock potentially payable in cash in the fiscal year ending August 31, 2005 is approximately $0.9 million, including $0.5 million in connection with shares of Series E Preferred Stock issued to the Company s Chairman.

**RESULTS OF CONTINUING OPERATIONS FISCAL YEAR ENDED AUGUST 31, 2004 COMPARED TO FISCAL YEAR ENDED AUGUST 31, 2003**

***Results Derived from Operating Businesses -***

Operating results for the fiscal years ended August 31, 2004 and 2003 are summarized as follows (amounts in $000 s):

| | Year Ended August 31, | |
|---|---|---|
| | **2004** | **2003** |
| **Revenues** | | |
| Collegiate Marketing and Production Services | $47,106 | $ 55,354 |
| Association Management Services | 8,673 | 8,775 |
| | $55,779 | $ 64,129 |
| **Operating Costs and Expenses** | | |
| Direct operating costs of services rendered | $35,699 | $ 42,603 |
| Selling, general and administrative | 18,220 | 20,397 |
| Amortization and impairment of acquisition intangibles | 4,554 | 22,141 |
| | $58,473 | $ 85,141 |
| **Income (Loss) from Operations** | | |
| Collegiate Marketing and Production Services | $ 977 | $ 930 |
| Association Management Services | 2,009 | 1,553 |
| Amortization and impairment of acquisition intangibles | (4,554) | (22,141) |
| Unallocated general and administrative costs | (1,126) | (1,354) |
| | $ (2,694) | $(21,012) |

Total revenues and operating results for the Collegiate Marketing and Production Services segment were impacted in the fiscal year ended August 31, 2004 by the termination of three university contractual relationships at the end of the previous fiscal year. Such contracts generated revenues of approximately $5.3 million during the fiscal year ended August 31, 2003 and generated operating profit of approximately $0.5 million during that period. The change in total revenues of this segment was also affected by certain printing, publishing and broadcasting projects and activities which occurred in the prior year period but not in the current fiscal year. Total revenues derived from printing, publishing, broadcasting and other integrated media activities, net of the elimination of intercompany revenues, were approximately $0.6 million less for the fiscal year ended August 31, 2004 than the same period of the prior year. Additionally, revenues derived from NCAA publications and related activities during the fiscal year ended August 31, 2004 were approximately $1.2 million less than the same period of the prior fiscal year.

Direct operating costs of services rendered decreased for the fiscal year ended August 31, 2004 from the same period in the prior year due to (a) the termination of certain contractual relationships as discussed previously, which substantially contributed to a reduction in total guaranteed rights fee and profit split expenses of approximately $2.1 million; (b) the elimination of approximately $1.5 million of other direct costs associated with the three terminated university contracts; and (c) the reduction of approximately $0.7 million in production expenses associated with the printing, publishing and broadcasting operations due to lower volume during the current year in comparison with the prior fiscal year.

Selling, general and administrative costs decreased for the fiscal year ended August 31, 2004 compared to the same period in the prior fiscal year due a general reduction in corporate overhead spending, including a decline in employee compensation costs to approximately $12.1 million from approximately $12.6 million and a decline in rent expense from $1.9 million to $1.4 million. Administrative expenses of the Association Management Services segment declined by $0.3 million on relatively consistent total revenues due primarily to reductions in employee compensation costs, thereby contributing to an increase in operating profit generated by the segment in comparison with the prior year.

Amortization and impairment of acquisition intangibles in the fiscal year ended August 31, 2004 included a goodwill impairment charge of $3.3 million based on management s consideration of historical operating results and reevaluation of the forecasted operating results and business plans for one of the Company s business units. In the fiscal year ended August 31, 2003, amortization and impairment of acquisition intangibles included a goodwill impairment charge of approximately $21.0 million based on management s consideration of historical operating results and reevaluation of the forecasted operating results and business plans for each of the Company s business units.

***Results Derived from Investments and Derivative Instruments -***

Equity in losses of affiliated companies of approximately $0.2 million for the fiscal year ended August 31, 2003 was derived from the Company s proportionate share of the net losses reported by Gray and iHigh. The Company s sale of its investment in Gray common stocks in August 2003 resulted in a gain to the Company of approximately $17.2 million. As a result of Gray s issuance of common stock in October and November 2002 for average net proceeds to Gray of approximately $7.72 per share, and since the Company s carrying value of its investment in Gray common stocks prior to Gray s issuance exceeded $7.72 per share, the Company reported a non-cash loss of approximately $2.3 million on Gray s issuance of shares in the fiscal year ended August 31, 2003.

In the fiscal year ended August 31, 2003, an investment valuation charge of approximately $4.2 million was reported by the Company to reduce a non-trade receivable from iHigh and the carrying value of the investment in iHigh to zero. During the fiscal year ended August 31, 2003, the Company recorded an investment valuation charge of approximately $1.0 million for the unrealized loss on its investment in Rawlings. The amount of the charge was determined based on the actual proceeds derived from the Company s sale of its investment in Rawlings common stock in December 2002.

The net change in the value of certain derivative instruments was approximately $1.3 million for the fiscal year ended August 31, 2004 due to an increase in the value of an interest rate swap agreement, and approximately $(1.0) million for the fiscal year ended August 31, 2003 due to a decline in the value of warrants for Gray common stock held by the Company prior to the Company s sale of the warrants in April 2003, net of an increase in the value of interest rate swap agreements as the agreements reached, in one case, and approached, in the other case, the dates on which the agreements terminate. The remaining interest rate swap agreement terminates on December 31, 2004.

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***Interest Expense and Debt Related Costs -***

Interest expense decreased to approximately $4.4 million for the fiscal year ended August 31, 2004 from approximately $8.2 million for the same period in the prior year, as a result of a reduction in long-term debt and declines in variable interest rates to which a significant amount of the debt is subject.

Debt issue cost amortization was approximately $1.2 million and $2.4 million for the fiscal years ended August 31, 2004 and 2003, respectively. During the fiscal year ended August 31, 2004, the Company issued approximately 805,000 shares of restricted common stock to the Chairman to compensate him for his personal guarantee, then valued at approximately $0.9 million. During the fiscal year ended August 31, 2003, the Company issued approximately 221,000 shares of restricted common stock to the Chairman to compensate him for his personal guarantee, then valued at approximately $1.3 million. Amortization of the value of all shares issued to the Chairman, of approximately $0.9 million and $1.4 million, is included in debt issue cost amortization for the fiscal years ended August 31, 2004 and 2003, respectively.

***Income Taxes -***

As of August 31, 2004, the Company had a net operating loss carryforward for tax purposes of approximately $54 million to reduce Federal taxable income in the future, and other tax credit carryforwards totaling approximately $0.6 million to reduce regular Federal income tax liabilities in the future. As of August 31, 2004, the Company increased its valuation allowance for net deferred tax assets by $4.2 million to $23.7 million, which, consistent with August 31, 2003, provides a full valuation allowance on the Company s net deferred tax assets. In the prior fiscal year, the valuation allowance was increased by $5.2 million, which reduced the carrying amount of deferred taxes in the balance sheet to zero. The principal differences between the federal statutory tax rate of 34% and the effective tax rate are nondeductible goodwill impairment charges, state income taxes and, the increase in the amount of the valuation allowance.

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**RESULTS OF CONTINUING OPERATIONS FISCAL YEAR ENDED AUGUST 31, 2003 COMPARED TO FISCAL YEAR ENDED JUNE 30, 2002**

***Results Derived from Operating Businesses -***

Operating results for the fiscal year ended August 31, 2003 and the fiscal year ended June 30, 2002 are summarized as follows (amounts in $000 s):

| | Year Ended | |
|---|---|---|
| | August 31, 2003 | June 30, 2002 |
| **Revenues** | | |
| Collegiate Marketing and Production Services | $ 55,354 | $ 79,099 |
| Association Management Services | 8,775 | 14,714 |
| | $ 64,129 | $ 93,813 |
| **Operating Costs and Expenses** | | |
| Direct operating costs of services rendered | $ 42,603 | $ 75,567 |
| Selling, general and administrative | 20,397 | 24,065 |
| Amortization and impairment of acquisition intangibles | 22,141 | 7,707 |
| | $ 85,141 | $107,339 |
| **Income (Loss) from Operations** | | |
| Collegiate Marketing and Production Services | $ 930 | $ (4,944) |
| Association Management Services | 1,553 | 1,275 |
| Amortization and impairment of acquisition intangibles | (22,141) | (7,707) |
| Unallocated general and administrative costs | (1,354) | (2,150) |
| | $(21,012) | $ (13,526) |

Total revenues and operating results for the Collegiate Marketing and Production Services segment were significantly affected by the termination of the Company s contracts with NCAA corporate sponsors as of or prior to June 30, 2002. Likewise, total direct operating costs of services rendered for the Collegiate Marketing and Production Services segment were substantially less, due to the elimination of very significant guaranteed rights fee obligations required of the Company under the Host-NCAA Contract in order to acquire NCAA corporate marketing rights. The Company generated approximately $28 million in revenue from sublicensing NCAA corporate marketing rights in the fiscal year ended June 30, 2002, and none in the fiscal year ended August 31, 2003.

Total revenues for the Association Management Services segment were also less than in the fiscal year ended June 30, 2002 due to the termination of certain contracts prior to the fiscal year ended August 31, 2003, which also resulted in a decrease in the Company s direct operating costs.

Direct operating costs of services rendered were significantly lower in the fiscal year ended August 31, 2003 compared to the fiscal year ended June 30, 2002 due to (a) the aforementioned elimination of guaranteed rights fee expense associated with the Host-NCAA Contract, which amounted to approximately $22.8 million in the fiscal year ended June 30, 2002; plus (b) net decreases of approximately $7.5 million in other rights fees and profit split expenses associated with other contracts within the Collegiate Marketing and Production Services segment and the Association Management Services segment .

Selling, general and administrative costs were significantly lower in the fiscal year ended August 31, 2003 compared to the fiscal year ended June 30, 2002 due to a reduction in the Company s workforce and a reduction in travel costs. Prior to the fiscal year ended August 31, 2003, the Company reduced its workforce by eliminating certain positions, reorganizing certain responsibilities and terminating certain projects that were not currently or expected to generate an adequate operating profit. Total employee compensation costs included in selling, general and administrative expense were approximately $12.6 million for the fiscal year ended August 31, 2003 compared to approximately $14.6 million for the fiscal year ended June 30, 2002. Travel costs were substantially reduced through efforts to operate more efficiently and control travel spending. As a result, total travel expense included in selling, general and administrative expense were approximately $0.7 million for the fiscal year ended August 31, 2003 compared to approximately $0.9 million for the fiscal year ended June 30, 2002.

The increase in the amount of amortization and impairment of acquisition intangibles in the fiscal year ended August 31, 2003 was due to the previously-discussed impairment charge taken as of August 31, 2003. As a result of the changes made to the Host-CBS Contract, the Company recorded an impairment charge of $6.6 million at June 30, 2002 pertaining to the customer relationship intangible asset, since such modifications significantly altered the contractual nature of the Company s underlying relationship with the NCAA.

***Results Derived from Investments and Derivative Instruments -***

Equity in losses of affiliated companies, totaling approximately $0.2 million for the fiscal years ended August 31, 2003 and approximately $2.9 million for the fiscal year ended June 30, 2002 was derived from the Company s proportionate share of the net earnings or losses reported by iHigh, and until the Company s sale of its investment in August 2003, Gray. As previously discussed, in the fiscal year ended August 31, 2003, the Company recognized a gain on the sale of its investment in Gray common stocks of approximately $17.2 million, and reported a non-cash loss of approximately $2.3 million on Gray s issuance of shares. In the fiscal year ended June 30, 2002, the Company sold its investment in Sarkes Tarzian, Inc., a media company, to Gray for $10 million, resulting in no gain or loss, and sold its remaining investments in Gray preferred stocks to parties affiliated with the Company s Chairman for approximately $6.8 million, resulting in a gain of approximately $3.1 million.

As previously discussed, in the fiscal year ended August 31, 2003, the Company reported an investment valuation charge of approximately $4.2 million pertaining to its investment in iHigh and approximately $1.0 million in connection with its prior investment in Rawlings. In the fiscal year ended June 30, 2002, the Company reported an investment valuation charge of approximately $2.8 million in connection with an investment previously made by Host which was, as of June 30, 2002, considered to have no value.

The net change in the value of certain derivative instruments, currently consisting of an interest rate swap agreement, and previously consisting of a second interest rate swap agreement and warrants to purchase Gray common stocks and, was approximately $(1.0) million for the fiscal year ended August 31, 2003 and $(3.3) million for the fiscal year ended June 30, 2002. The value of the derivative instruments declined in each fiscal year as a result of a decline in the value of the warrants during both periods, net of an increase in the value of the interest rate swap agreements during the fiscal year ended August 31, 2003, and combined with a decrease in the value of the interest swap agreements during the fiscal year ended June 30, 2002.

***Interest Expense and Debt Related Costs -***

Interest expense of approximately $8.2 million for the fiscal year ended August 31, 2003 was less than interest expense reported for the fiscal year ended June 30, 2002 of approximately $9.7 million, as a result of the reduction in long-term debt and declines in variable interest rates on which a significant amount of the debt was subject.

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Debt issue cost amortization was approximately $2.4 million and $2.8 million for the fiscal years ended August 31, 2003 and June 30, 2002, respectively. During the fiscal year ended June 30, 2002, the Company issued approximately 106,000 shares of restricted common stock to the Company s Chairman to compensate him for his personal guarantee, then valued at approximately $0.8 million, compared to 221,000 shares then valued at $1.3 million for the fiscal year ended August 31, 2003, as previously discussed. Amortization of the value of all shares issued to the Chairman of approximately $1.6 million for the fiscal year ended June 30, 2002 and $1.4 million for the fiscal year ended August 31, 2003 is included in debt issue cost amortization.

***Income Taxes -***

As previously discussed, the Company increased its valuation allowance for net deferred tax assets as of August 31, 2003, reporting a tax provision of $5.2 million. The principal differences between the federal statutory tax rate of 34% and the effective tax rate are nondeductible goodwill impairment charges, state income taxes and, the increase in the amount of the valuation allowance.

**RESULTS OF CONTINUING OPERATIONS TWO MONTHS ENDED AUGUST 31, 2002 COMPARED TO TWO MONTHS ENDED AUGUST 31, 2001**

***Results Derived from Operating Businesses -***

Operating results for the two months ended August 31,2002 and 2001 are summarized as follows (amounts in $000 s):

| | Two Months Ended August 31, | |
|---|---|---|
| | **2002** | **2001** |
| | | **(unaudited)** |
| **Revenues** | | |
| Collegiate Marketing and Production Services | $ 3,307 | $ 5,838 |
| Association Management Services | 1,284 | 2,015 |
| | $ 4,591 | $ 7,853 |
| **Operating Costs and Expenses** | | |
| Direct operating costs of services rendered | $ 2,854 | $ 5,233 |
| Selling, general and administrative | 3,766 | 4,199 |
| Amortization of acquisition intangibles | 183 | 150 |
| | $ 6,803 | $ 9,582 |
| **Income (Loss) from Operations** | | |
| Collegiate Marketing and Production Services | $(1,941) | $(1,182) |
| Association Management Services | 152 | 47 |

| | | |
|---|---|---|
| Amortization of acquisition intangibles | (183) | (150) |
| Unallocated general and administrative costs | (240) | (444) |
| | $(2,212) | $(1,729) |

Total revenues and operating results for the Collegiate Marketing and Production Services segment were impacted in the two months ended August 31, 2002 by the previously-discussed termination of the Company s contracts with NCAA corporate sponsors as of or prior to June 30, 2002. In the two months ended August 31, 2001, the Company recognized revenues of approximately $2.5 million and $2.0 million in guaranteed rights fee expense in connection with NCAA corporate sponsorships and the Host-NCAA Contract. No such revenue or expense was recognized in the two months ended August 31, 2002. Total revenues for the Association Management Services segment declined due to the termination of certain contracts in 2001, which also caused a similar decline in the Company s direct operating costs. The termination of these contracts resulted in a nominal increase in operating profit derived from the Association Management Services segment for the periods presented.

The decline in direct operating costs rendered for the two months ended August 31, 2002 from the amount reported for the same period in the prior year was due to (a) the elimination of the guaranteed rights fee expense associated with the Host-NCAA Contract, less (b) increases in other rights fees and profit split expenses of approximately $0.2 million, less (c) increases in the direct costs of publishing and printing and compensation costs charged as direct expenses.

Selling, general and administrative costs declined for the two months ended August 31, 2002 from the same period in the prior fiscal year due to a reduction in the Company s workforce and a decrease in travel costs. During the fiscal year ended June 30, 2002, the Company reduced its workforce by eliminating certain positions, reorganizing certain responsibilities and terminating certain projects that were not currently or expected to generate an adequate operating profit. Total employee compensation costs included in selling, general and administrative expense were approximately $2.6 million for the two months ended August 31, 2002 compared to approximately $2.8 million for the same period in the prior year.

***Results Derived from Investments and Derivative Instruments -***

Equity in losses of affiliated companies, totaling approximately $0.1 million for the two months ended August 31, 2002 and approximately $0.6 million for the two months ended August 31, 2001 was derived from the Company s proportionate share of the net earnings or losses reported by Gray, iHigh, and until December 31, 2001, Rawlings. Subsequent to December 31, 2001, the Company accounted for its investment in Rawlings as an available-for-sale marketable security until the investment was sold in December 2002.

Interest and dividend income of approximately $0.7 million for the two months ended August 31, 2002 was primarily attributable to interest earned on income tax refunds received by the Company in August 2002 pertaining to amended federal income tax returns. Interest and dividend income of approximately $0.1 million for the two months ended August 31, 2001 was primarily attributable to dividends earned on the Company s investment in shares of Gray series A and series B preferred stock, all of which were sold in September 2001.

The net change in the value of certain derivative instruments, consisting of warrants to purchase Gray common stocks and interest rate swap agreements, was approximately $(0.4) million and $(0.6) million for the two months ended August 31, 2002 and 2001, respectively. The value of the derivative instruments declined during these periods as a result of declines in the values of the interest rate swap agreements.

Other income for the two months ended August 31, 2001 consisted primarily of income from an option agreement with Gray whereby Gray had the right to acquire the Company s investment in Tarzian.

***Interest Expense and Debt Related Costs -***

Interest expense decreased to approximately $1.5 million for the two months ended August 31, 2002 compared to approximately $1.7 million for the same period in the prior year, as a result of a reduction in long-term debt and declines in variable interest rates to which a significant amount of the debt is subject.

Debt issue cost amortization was approximately $0.3 million and $0.4 million for the two months ended August 31, 2002 and 2001, respectively.

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*Income Taxes -*

The principal differences between the federal statutory tax rate of 34% and the effective tax rate are state income taxes and, for the two months ended August 31, 2002, an increase in the amount of the valuation allowance.

**RESULTS OF DISCONTINUED OPERATIONS**

Results derived from the Company s discontinued operations for each of the fiscal years ended August 31, 2004, August 31, 2003 and June 30, 2002, and the two months ended August 31, 2002 and August 31, 2001 are summarized as follows (amounts in 000 s):

| | Year Ended August 31, | | Two Months Ended August 31, | | Year Ended June 30, |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2002 |
| | | | | (unaudited) | |
| **Revenues** | | | | | |
| Affinity Events | $10,843 | $14,052 | $ 4,899 | $ 4,921 | $19,248 |
| Consulting | | 5,664 | | 3 | 11 |
| | $10,843 | $19,716 | $ 4,899 | $ 4,924 | $19,259 |
| **Costs and Expenses** | | | | | |
| Affinity Events: | | | | | |
| Direct operating costs of services rendered | $ 9,020 | $12,467 | $ 4,411 | $ 2,849 | $12,964 |
| Selling, general and administrative | 9,297 | 5,481 | 1,877 | 1,955 | 8,708 |
| Amortization and impairment of acquisition intangibles | | 9,615 | 20 | 21 | 117 |
| | $18,317 | $27,563 | $ 6,308 | $ 4,825 | $21,789 |
| **Income (Loss) from Discontinued Operations** | | | | | |
| Affinity Events | $ (7,474) | $ (3,896) | $(1,389) | $ 117 | $ (2,424) |
| Consulting | | 5,664 | | 3 | 11 |
| Amortization and impairment of acquisition intangibles | | (9,615) | (20) | (21) | (117) |
| Datasouth | | (1,695) | | | |
| Income tax benefit (provision) | | | | (37) | 250 |