BULL RUN CORP
Form 10-Q
January 10, 2003

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

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended November 30, 2002

OR

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission file number 0-9385

Bull Run Corporation
(Exact name of registrant as specified in its charter)

Georgia	**58-2458679**
(State of incorporation or organization)	(I.R.S. Employer Identification No.)

4370 Peachtree Road, N.E., Atlanta, GA 30319
(Address of principal executive offices) (Zip Code)

(404) 266-8333
(Registrant s telephone number, including area code)

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. Yes x No o

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 38,634,424 shares of Common Stock, par value $.01 per share, were outstanding as of December 31, 2002.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

BULL RUN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
(Amounts in thousands)

	November 30, 2002	August 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 302	$ 397
Accounts receivable, net of allowance of $512 and $514 as of November 30, 2002 and August 31, 2002, respectively	20,526	13,502
Inventories	693	1,005
Prepaid costs and expenses	1,511	1,559
Net current assets of discontinued segment		106
Total current assets	23,032	16,569
Property and equipment, net	4,921	5,171
Investment in affiliated companies	24,600	25,013
Goodwill	57,862	57,862
Customer base and trademarks	16,695	16,999
Deferred income taxes	20,531	21,381
Other assets	7,506	8,818
	$155,147	$151,813
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 93,932	$ 19,850
Accounts payable	4,322	6,558
Deferred revenue	7,322	13,616
Accrued and other liabilities	17,438	8,797
Total current liabilities	123,014	48,821
Long-term debt	19,184	93,091
Other liabilities	664	1,284
Total liabilities	142,862	143,196
Commitments and contingencies		
Redeemable Series B convertible preferred stock, $.01 par value, (authorized 100 shares; issued and outstanding 5.4 shares; $5,400 aggregate liquidation value)	5,400	5,400
Stockholders equity:		
Series C convertible preferred stock, $.01 par value (authorized 100 shares; issued and outstanding 7.1 shares with $7,097 aggregate liquidation value as of November 30, 2002 and 4.1 shares with $4,097 aggregate liquidation value as of August 31, 2002)	7,097	4,097
Common stock, $.01 par value (authorized 100,000 shares; issued 39,129 and 38,548 shares as of November 30, 2002 and August 31, 2002, respectively)	391	385
Additional paid-in capital	79,582	79,101
Treasury stock, at cost (542 shares)	(1,393)	(1,393)

Other comprehensive accumulated loss	(366)	(2,050)
Retained earnings (accumulated deficit)	(78,426)	(76,923)
Total stockholders equity	6,885	3,217
	$155,147	$151,813

The accompanying notes are an integral part of these condensed consolidated financial statements.

BULL RUN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(Amounts in thousands, except per share data)

	Three Months Ended November 30,	
	2002	**2001**
Revenue from services rendered	$31,109	$35,718
Operating costs and expenses:		
Direct operating costs for services rendered	18,066	27,229
Selling, general and administrative	6,431	8,387
Amortization of acquisition intangibles	304	204
Total operating costs and expenses	24,801	35,820
Income (loss) from operations	6,308	(102)
Other income (expense):		
Equity in earnings (losses) of affiliated companies	579	(208)
Net change in value of certain derivative instruments	(1,674)	(1,512)
Loss on issuance of shares by affiliate	(2,339)	
Gain (loss) on investment dispositions and investment valuation adjustments	(977)	3,064
Interest expense	(2,193)	(2,712)
Debt issue cost amortization	(544)	(822)
Other income (expense), net	2	191
Loss before income taxes and extraordinary item	(838)	(2,101)
Income tax benefit		736
Loss before extraordinary item	(838)	(1,365)
Proportionate share of affiliate s extraordinary loss	(406)	
Net loss	(1,244)	(1,365)
Preferred dividends	(259)	(67)
Net loss available to common stockholders	$ (1,503)	$ (1,432)
Loss per share available to common stockholders, basic and diluted:		
Loss available to common stockholders before extraordinary item	$ (0.03)	$ (0.04)
Extraordinary loss	(0.01)	
Net loss available to common stockholders	$ (0.04)	$ (0.04)
Weighted average number of common shares outstanding:		
Basic and diluted	38,312	36,024

The accompanying notes are an integral part of these condensed consolidated financial statements.

BULL RUN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE PREFERRED STOCK AND STOCKHOLDERS EQUITY (Unaudited)
(Amounts in thousands)

	Redeemable Series B Preferred Stock	Series C Preferred Stock	Shares	Common Stock Amount	Additional Paid-In Capital
As of September 1, 2002	**$ 5,400**	**$ 4,097**	**38,548**	**$ 385**	**$79,101**
Issuance of Series C preferred stock		3,000			
Issuance of common stock			581	6	481
As of November 30, 2002	**$ 5,400**	**$ 7,097**	**39,129**	**$ 391**	**$79,582**

	Treasury Stock	Other Comprehensive Accumulated Loss	Retained Earnings (Accumulated Deficit)	Total Stockholders Equity
As of September 1, 2002	**$(1,393)**	**$(2,050)**	**$(76,923)**	**$ 3,217**
Issuance of Series C preferred stock				3,000
Issuance of common stock				487
Other comprehensive income (loss)		1,684		1,684
Preferred dividends			(259)	(259)
Net loss			(1,244)	(1,244)

The accompanying notes are an integral part of these condensed consolidated financial statements.

BULL RUN CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Amounts in thousands)

	Three Months Ended November 30,	
	2002	**2001**
Cash flows from operating activities:		
Net loss	$(1,244)	$ (1,365)
Adjustments to reconcile net loss to net cash used in operations:		
Extraordinary loss	406	
Provision for bad debts	54	91
Depreciation and amortization	1,166	1,422
Equity in (earnings) losses of affiliated companies	(579)	208
Dividends received from affiliated company	41	41
Gain (loss) on dispositions of investments and valuation adjustments	1,032	(3,064)
Net change in value of certain derivative instruments	1,674	1,512
Loss on issuance of shares by affiliate	2,339	
Deferred income taxes		(736)
Change in operating assets and liabilities:		
Accounts receivable	(7,078)	271
Inventories	312	(14)
Prepaid costs and expenses	48	(1,354)
Accounts payable and accrued expenses	(480)	1,092
Other long-term liabilities	(534)	(61)
Net cash used in continuing operations	(2,843)	(1,957)
Net cash provided by (used in) discontinued operations	106	(147)
Net cash used in operating activities	(2,737)	(2,104)
Cash flows from investing activities:		
Capital expenditures	(67)	(226)
Proceeds on sale of investments		6,803
Investment in affiliated companies		(455)
Increase in other assets	487	(29)
Net cash used in continuing operation investing activities	420	6,093
Net cash provided by (used in) discontinued operation investing activities		(62)
Net cash provided by (used in) investing activities	420	6,031
Cash flows from financing activities:		
Borrowings from revolving lines of credit	175	12,300
Repayments on revolving lines of credit		(4,100)
Repayments on long-term debt		(12,293)
Debt issue costs	(953)	
Issuance of preferred stock	3,000	2,400
Issuance of common stock		350
Net cash provided by (used in) financing activities	2,222	(1,343)
Net decrease in cash and cash equivalents	(95)	2,584
Cash and cash equivalents, beginning of period	397	(1,051)

Cash and cash equivalents, end of period	$ 302	$ 1,533

The accompanying notes are an integral part of these condensed consolidated financial statements.

BULL RUN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except per share amounts)

1. BASIS OF PRESENTATION

In management s opinion, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (consisting solely of normal, recurring adjustments) necessary to present fairly the financial position and results of operations for the transition and comparative period reported. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Annual Report on Form 10-K of Bull Run Corporation for the fiscal year ended June 30, 2002.

On December 17, 1999, Bull Run Corporation (Bull Run) acquired the stock of Host Communications, Inc. (Host or Host Communications), Universal Sports America, Inc. and Capital Sports Properties, Inc. not previously owned, directly or indirectly, by Bull Run (the Host-USA Acquisition). All operations of the acquired entities are now combined under Host.

The accompanying condensed consolidated financial statements include the accounts of Bull Run and its wholly owned subsidiaries (collectively, unless the context otherwise requires, the Company), after elimination of intercompany accounts and transactions.

In 2002, the Company changed its fiscal year end from June 30 to August 31, and filed with the U.S. Securities and Exchange Commission a Form 10-Q for the transition period July 1, 2002 to August 31, 2002. Condensed consolidated operating results and cash flows for the quarterly period ended November 30, 2001 are presented herein for comparative purposes.

Unless otherwise indicated, amounts provided in these notes to the consolidated financial statements pertain to continuing operations.

2. DISCONTINUED OPERATION

On September 29, 2000, the Company consummated the sale of the inventories, property and equipment and intangible assets of Datasouth Computer Corporation (Datasouth), a wholly owned subsidiary, for cash and an installment note payable. Accordingly, the operating results and net assets associated with Datasouth s computer printer manufacturing business have been reported as discontinued operations in the accompanying financial statements. To the extent actual proceeds ultimately received on the sale differ from estimates that are reported as of August 31, 2002, such differences will be reported as discontinued operations in future periods.

3. SUPPLEMENTAL CASH FLOW DISCLOSURES

Supplemental cash flow information follows:

	Three Months Ended November 30,	
	2002	**2001**
Interest paid	$2,433	$2,858
Income taxes paid (recovered)	9	(333)
Noncash investing and financing activity:		
Issuance of common stock primarily in connection with debt issuance costs	$ 487	

4. INVESTMENT IN AFFILIATED COMPANIES

The Company s investment in affiliated companies is comprised of the following:

	November 30, 2002		August 31, 2002	
	Amount	Voting %	Amount	Voting %
Gray Television, Inc.	$17,125	18.0%	$19,102	26.1%
Rawlings Sporting Goods Company, Inc.	6,170	10.1%	4,377	10.1%
iHigh, Inc.	1,305	35.1%	1,534	35.1%
	$24,600		$25,013	

The Company accounts for its investments in Gray Television, Inc. (Gray), and iHigh, Inc. (iHigh) using the equity method. Gray s two classes of common stock are publicly traded on the New York Stock Exchange under the symbols GTN.A and GTN . The Company accounts for its investment in Rawlings Sporting Goods Company, Inc. (Rawlings) as an available-for-sale marketable security. As a result, the Company s carrying value of its investment in Rawlings is based on the closing price of Rawlings common stock as quoted on the Nasdaq Stock Market, and is included as a component of Investment in affiliated companies. Subsequent to November 30, 2002, the Company s investment in Rawlings was sold in the open market for cash of $6,764, which was immediately used to reduce the Company s bank debt. In the three months ended November 30, 2002, $1,032 of the unrealized loss on the Rawlings investment that had been previously reported as other comprehensive accumulated loss (a component of the Company s stockholders equity) was expensed, and reported as an investment valuation adjustment in the Company s results of operations. This impairment charge was realized in consideration of the terms of the Company s subsequent sale of its investment in Rawlings in December 2002.

In October 2002, Gray completed a public offering of 30,000 shares of its common stock for net proceeds of approximately $231,200, and in November 2002, Gray issued an additional 4,500 shares for additional proceeds of approximately $34,900. Such cumulative proceeds were used in part by Gray to finance an October 2002 acquisition of a company that owns television stations, and finance an acquisition of an additional television station in December 2002. As a result of these transactions by Gray, the Company s ownership of Gray s outstanding common stock was reduced from 12.9% to 4.0%, representing a decline in the Company s voting power in Gray from 26.1% to 18.0%. Since Gray s net proceeds per share of issued common stock was an amount which was less than the Company s carrying value per share of Gray common stock owned prior to such transactions, a loss of $2,339 on the issuance of shares by Gray was reported by the Company for the three months ended November 30, 2002. Certain executive officers of Gray and certain directors of Gray are also executive officers and directors of the Company; therefore the Company will continue to account for its investment in Gray under the equity method subsequent to the issuance of shares by Gray, despite the dilution of the Company s voting power to less than 20%, since the Company continues to have significant influence in Gray.

The aggregate operating results of Gray and iHigh, affiliated companies in which the Company s investments are accounted for using the equity method, were as follows: