BULL RUN CORP
Form 10-Q
April 11, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2005

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 (State of incorporation or organization)	**58-2458679** (I.R.S. Employer Identification No.)
4370 Peachtree Road, N.E., Atlanta, GA (Address of principal executive offices)	**30319** (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.
þ Yes o No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 6,889,767 shares of Common Stock, par value $.01 per share, were outstanding as of March 31, 2005.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	February 28, 2005	August 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 480	$ 450
Accounts receivable, net of allowance of $345 and $309 as of February 28, 2005 and August 31, 2004, respectively	13,699	5,219
Inventories	898	663
Prepaid costs and expenses	1,802	1,757
Total current assets	16,879	8,089
Property and equipment, net	2,937	3,184
Goodwill	40,364	40,364
Customer relationships and trademarks	7,949	8,308
Other assets	1,324	997
	$ 69,453	$ 60,942
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Current portion of long-term debt (including $4,519 payable to related parties as of February 28, 2005 and none as of August 31, 2004)	$ 69,125	$ 590
Accounts payable	4,325	5,866
Deferred revenue	3,940	4,819
Accrued fees payable to related party	1,354	1,721
Advances from stockholder	6,050	4,550
Accrued and other liabilities	14,905	9,215
Net current liabilities of discontinued segment	810	474
Total current liabilities	100,509	27,235
Long-term debt (including $3,019 payable to related parties)		64,625
Other liabilities, excluding redeemable preferred stock	198	497
Net noncurrent liabilities of discontinued segments	554	840
Redeemable preferred stock:		
Series D preferred stock, $.01 par value (authorized 100 shares; issued and outstanding 12.5 shares; $12,497 liquidation value)	12,497	12,497
	7,606	9,799

Series E preferred stock, $.01 par value (authorized 25 shares; issued and outstanding 7.6 shares as of February 28, 2005 and 9.8 shares as of August 31, 2004; $7,606 and $9,799 liquidation value, respectively)		
Series F preferred stock, $.01 par value (authorized 25 shares; issued and outstanding 2.0 shares; $2,000 liquidation value)	2,000	2,000
Total liabilities	123,364	117,493
Commitments and contingencies		
Stockholders deficit:		
Common stock, $.01 par value (authorized 100,000 shares; issued 6,887 and 5,386 shares as of February 28, 2005 and August 31, 2004, respectively)	69	54
Additional paid-in capital	84,450	81,706
Accumulated deficit	(138,430)	(138,311)
Total stockholders deficit	(53,911)	(56,551)
	$ 69,453	$ 60,942

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

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

	Three Months Ended		Six Months Ended	
	February 28, 2005	February 29, 2004	February 28, 2005	February 29, 2004
Revenue from services rendered	$ 18,034	$ 16,343	$ 41,109	$ 35,838
Operating costs and expenses:				
Direct operating costs of services rendered	13,020	10,645	28,796	23,603
Selling, general and administrative	4,283	4,451	8,626	8,859
Amortization of acquisition intangibles	180	314	359	627
Total operating costs and expenses	17,483	15,410	37,781	33,089
Operating income	551	933	3,328	2,749
Other income (expense):				
Net change in value of derivative instrument	102	241	412	547
Interest expense, related parties	(83)	(10)	(162)	(10)
Interest expense, other	(1,005)	(1,098)	(2,097)	(2,184)
Debt issue cost amortization, related parties	(240)	(217)	(436)	(435)
Debt issue cost amortization, other	(111)	(76)	(164)	(149)
Other income (expense)	(3)	(17)	9	(11)
Income (loss) from continuing operations	(789)	(244)	890	507
Income (loss) from discontinued operations	132	(1,446)	23	(3,319)
Net income (loss)	(657)	(1,690)	913	(2,812)
Preferred dividends	(503)	(558)	(1,032)	(1,090)
Net loss available to common stockholders	$ (1,160)	$ (2,248)	$ (119)	$ (3,902)
Earnings (loss) per share available to common stockholders, basic:				
Continuing operations	$ (0.20)	$ (0.18)	$ (0.02)	$ (0.13)
Discontinued operations	0.02	(0.32)	0.00	(0.75)
	$ (0.18)	$ (0.50)	$ (0.02)	$ (0.88)

Earnings (loss) per share available to common stockholders, diluted:				
Continuing operations	$ (0.20)	$ (0.18)	$ (0.02)	$ (0.13)
Discontinued operations	0.02	(0.32)	0.00	(0.75)
	$ (0.18)	$ (0.50)	$ (0.02)	$ (0.88)
Weighted average number of common shares outstanding:				
Basic	6,529	4,500	6,121	4,420
Diluted	6,529	4,500	6,121	4,420

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

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

	Redeemable Preferred Stock	Common Stock Shares	Common Stock Amount
As of September 1, 2004	**$ 24,296**	**5,386**	**$ 54**
Conversion of redeemable preferred stock to shares of common stock	(2,193)	313	3
Issuance of common stock		1,188	12
As of February 28, 2005	**$ 22,103**	**6,887**	**$ 69**

	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Deficit
As of September 1, 2004	**$ 81,706**	**$ (138,311)**	**$ (56,551)**
Conversion of redeemable preferred stock to shares of common stock	2,190		2,193
Issuance of common stock	554		566
Preferred dividends		(1,032)	(1,032)
Net income		913	913
As of February 28, 2005	**$ 84,450**	**$ (138,430)**	**$ (53,911)**

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

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

	Six Months Ended	
	February 28, 2005	**February 29, 2004**
Cash flows from operating activities:		
Net income (loss)	$ 913	$ (2,812)
Loss (income) from discontinued operations	(23)	3,319
Adjustments to reconcile net income (loss) to net cash used in continuing operations:		
Provision for bad debts	77	(63)
Depreciation and amortization	1,260	1,736
Net change in value of derivative instrument	(412)	(547)
Change in operating assets and liabilities:		
Accounts receivable	(8,556)	(4,082)
Inventories	(235)	(316)
Prepaid costs and expenses	29	310
Accounts payable and other current liabilities	2,126	(655)
Other long-term liabilities	113	(20)
Net cash used in continuing operations	(4,708)	(3,130)
Net cash used in discontinued operations	(976)	(4,753)
Net cash used in operating activities	(5,684)	(7,883)
Cash flows from investing activities:		
Capital expenditures	(45)	(188)
Other investing activities	9	(58)
Net cash used in continuing operation investing activities	(36)	(246)
Net cash provided by (used in) discontinued operation investing activities	1,039	(15)
Net cash provided by (used in) investing activities	1,003	(261)
Cash flows from financing activities:		
Borrowings from revolving line of credit	3,000	
Borrowings on note issued by related party	1,500	
Cash advances made by stockholder	1,500	1,800
Repayments on long-term debt	(590)	
Debt issue costs	(445)	(41)
Preferred stock dividends paid	(254)	
Issuance of preferred stock		2,000
Net cash provided by continuing operation financing activities	4,711	3,759

Net increase (decrease) in cash and cash equivalents	30	(4,385)
Cash and cash equivalents, beginning of period	450	4,520
Cash and cash equivalents, end of period	$ 480	$ 135

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

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

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Bull Run Corporation (Bull Run or the Company) have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal, recurring adjustments) considered necessary for a fair presentation of the Company s financial position and results of operations have been included. Operating results for the three-month and six-month period ended February 28, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended August 31, 2004.

The accompanying condensed consolidated financial statements include the accounts of Bull Run and its wholly owned subsidiaries, including Host Communications, Inc. (Host), after elimination of intercompany accounts and transactions. Bull Run, through Host, provides comprehensive sales, marketing, multimedia, special event and convention/hospitality services, primarily for National Collegiate Athletic Association (NCAA) Division I universities and conferences, and national/global associations.

Discontinued Operations 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 Marketing and Production Services segment and its Association Management Services segment. As a result, the Affinity Events segment has been reflected in the Company s financial statements as a discontinued operation for all periods presented. In December 2004, the principal assets of the Affinity Events segment were sold. Proceeds on the sale received at closing of $870 were used to reduce current liabilities, $295 of which pertained to the cancellation of the remaining principal amount on subordinated debt previously issued by the Company to an officer of the company purchasing the assets. In addition, the Company received a $675 subordinated installment note issued by the purchaser and other future consideration estimated to be valued at approximately $150. At this time, the Company has judged that the collection of the note is in doubt, due to its subordinate nature and the amount of time before which scheduled payments are to be made. As a result, the Company s loss on its discontinued operations reported in the fiscal year ended August 31, 2004 was presented net of the $870 proceeds then anticipated on, and ultimately received at the closing of, the sale of the Affinity Events assets. If the Company ultimately receives more than $870 on the sale, such income will be reported in the future as income from discontinued operations.

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

Stock-Based Compensation The Company follows the provisions of Statement of Financial Accounting Standards No. 123 Accounting for Stock-Based Compensation (SFAS 123). SFAS 123 allows companies to either expense the estimated fair value of stock options or continue to follow the intrinsic value method set forth in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25), but disclose the pro forma effects on net income (loss) had the fair value of the options been expensed. The Company has elected to continue to apply APB 25 in accounting for its stock option incentive plans. In December 2004, the Financial Accounting Standards Board issued a revision to SFAS 123 entitled Share-Based Payment (SFAS 123(R)). SFAS 123(R) will require the Company to measure the cost of employee services received in exchange for certain awards of equity instruments, including stock options, based on the grant-date fair value of the award over the requisite service period (usually the vesting period). SFAS 123(R) is effective for the first interim period beginning after June 15, 2005. The Company intends to adopt SFAS 123(R) prospectively as of its effective date, and therefore the Company does not anticipate that the adoption of SFAS 123(R) will have any affect on the Company s financial statements in connection with any currently outstanding stock options, since all such stock options are currently vested in full. However, stock options or other awards of equity instruments issued after August 31, 2005 in exchange for employee services will likely result in additional operating expense over the vesting period.

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For purposes of the following pro forma disclosures, the estimated fair value of the options is amortized to expense over the options vesting period:

	Three Months Ended February 28, 2005	Three Months Ended February 29, 2004	Six Months Ended February 28, 2005	Six Months Ended February 29, 2004
Net loss available to common stockholders, as reported	$ (1,160)	$ (2,248)	$ (119)	$ (3,902)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related effects	(1)	(92)	(2)	(184)
Net loss available to common stockholders, pro forma, for computation of basic earnings (loss) per share	$ (1,161)	$ (2,340)	$ (121)	$ (4,086)
Earnings (loss) per common share, basic:				
As reported	$ (0.18)	$ (0.50)	$ (0.02)	$ (0.88)
Pro forma	$ (0.18)	$ (0.52)	$ (0.02)	$ (0.92)
Net loss available to common stockholders, as reported	$ (1,160)	$ (2,248)	$ (119)	$ (3,902)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1)	(92)	(2)	(184)
Net income (loss) available to common stockholders, pro forma, for computation of diluted income (loss) per share	$ (1,161)	$ (2,340)	$ (121)	$ (4,086)
Earnings (loss) per common share, diluted:				
As reported	$ (0.18)	$ (0.50)	$ (0.02)	$ (0.88)
Pro forma	$ (0.18)	$ (0.52)	$ (0.02)	$ (0.92)

2. LIQUIDITY

As of February 28, 2005, the Company s negative working capital was $83,630, including $58,932 of bank debt maturing on November 30, 2005, $8,693 of subordinated debt maturing on January 17, 2006 (of which, $3,019 is payable to the Company s Chairman) and $1,500 of subordinated debt (payable to a company affiliated with the Company s Chairman) maturing on February 28, 2006. Certain current liabilities, including deferred revenue of $3,940, advances from stockholder of $6,050 and certain accrued preferred stock dividends of $2,836, do not represent cash obligations or do not represent liabilities expected to be paid in cash prior to the November 30, 2005 maturity date of the bank credit facility. In prior fiscal years, the Company reported substantial losses and consumed substantial cash in its operations. The Company has previously funded its liquidity needs through the sale of investments, the issuance of preferred stock and other cash advances made by the Company s majority stockholder and

Chairman of the board, and the issuance of subordinated debt to the Chairman and companies affiliated with the Chairman. During the six months ended February 28, 2005, a company affiliated with the Company s Chairman provided cash of $1,500 used for working capital purposes in connection with the Company s issuance of the previously-discussed $1,500 subordinated note. The Company s Chairman has committed to fund the necessary cash to ultimately repay this note, and in addition, the Chairman provided an additional $1,500 cash advance to the Company during the current fiscal year, the proceeds from which were used for working capital purposes. Based upon the Company s forecasted operating cash flows and capital expenditures for the remainder of its fiscal year ending August 31, 2005, management believes the Company has sufficient liquidity until the November 30, 2005 maturity date of its bank credit agreement.

As further discussed in Note 6, the Company currently has $58,932 of debt outstanding under its bank credit agreement. As further discussed in Note 6, the Company s Chairman has guaranteed repayment of up to $55,932 of the outstanding bank debt. Amounts outstanding under the credit agreement are due on November 30, 2005. 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.

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3. DISCONTINUED OPERATIONS

The Company discontinued its Affinity Events business segment during the fiscal year ended August 31, 2004. 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, and ultimately sold the principal assets of the segment in December 2004. Accordingly, the operating results and net assets associated with the Consulting and the Affinity Events business segments as of and for all fiscal periods presented herein have been reflected as discontinued operations in the accompanying consolidated financial statements.

As a result of the suspension of its Affinity Events business, the Company incurred certain costs charged to discontinued operations in the fiscal year ended August 31, 2004, including (a) employee severance costs; (b) the present value of future lease obligations, net of estimated sublease income, to be incurred through 2010; and (c) the present value of consulting agreement commitments through 2010 for arrangements under which no future benefits are expected to be derived; less (d) the estimated proceeds to be derived from the sale of Affinity Events assets.

A reconciliation of the accrued liability associated with the suspension and sale of the Affinity Events segment is as follows:

Accrued liability as of August 31, 2004	$ 2,625
Proceeds on sale of Events assets	870
Costs incurred during the period	(828)
Accrued liability as of February 28, 2005	$ 2,667

Potential income subsequent to February 28, 2005 to be derived from subleasing vacated office space has been estimated to be approximately $950 over the remaining lives of the leases. The estimated proceeds to be derived from the sale of Affinity Events assets do not include amounts payable to the Company in the future which are anticipated to be subordinated to the purchaser s bank financing. Actual amounts received in connection with deferred proceeds 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 February 28, 2005, 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 February 28, 2005 will be reported in discontinued operations in future periods. Proceeds of $870 derived from the sale of the Affinity Events assets at closing in December 2004 were used to repay a subordinated note totaling $295 and certain liabilities associated with the prior operations of the business.

The Company consummated the sale of Datasouth s computer printer manufacturing operation on September 29, 2000. Certain of the proceeds to be realized on the sale of Datasouth s assets are deferred under a subordinated note agreement with the purchaser that was amended during the fiscal year ended August 31, 2004. The amended note agreement provides for gradually reducing discounts on the amount due to the Company which are earned by the purchaser as payments are made through the note s maturity in December 2006. As of February 28, 2005, the amount due to the Company was $2,217; however the Company has recorded a $1,122 reserve on the note receivable as of February 28, 2005 as an estimate of the amounts that might ultimately become uncollectible and/or discounted. To the extent actual proceeds on the note differ from management s current estimate of the proceeds to be ultimately received, such differences will be reported as discontinued operations in future periods.

There are no material contingent liabilities related to discontinued operations, such as product or environmental liabilities or litigation, which remain with the Company after the termination and/or disposal of its discontinued operations.

Assets and liabilities of the discontinued operations have been reflected in the consolidated balance sheets as current or noncurrent based on the original classification of the accounts, except that current liabilities are presented net of current assets and noncurrent liabilities are presented net of noncurrent assets.

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The following is a summary of assets and liabilities of discontinued operations:

	February 28, 2005	August 31, 2004
Current liabilities:		
Accounts payable and accrued expenses	$ 125	$ 1,429
Restructuring obligations	1,020	513
Deferred revenue	20	831
Current assets:		
Accounts receivable, net	(348)	(2,163)
Inventories		(6)
Prepaid costs and expenses	(7)	(130)
Net current liabilities of discontinued segment	$ 810	$ 474
Noncurrent liabilities:		
Restructuring obligations	$ 1,647	$ 2,112
Other liabilities	4	
Noncurrent assets:		
Note receivable, net	(1,095)	(1,245)
Property and equipment, net	(2)	(12)
Other assets		