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BUCKHEAD AMERICA CORP  
Form 10-Q  
August 19, 2002

U.S. Securities and Exchange Commission  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended JUNE 30, 2002
- 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: 0-22132

BUCKHEAD AMERICA CORPORATION  
(Exact name of registrant as specified in  
its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

58-2023732  
(IRS Employer  
Identification No.)

7000 CENTRAL PARKWAY, SUITE 850, ATLANTA, GEORGIA  
30328 (Address of principal executive offices)  
(Zip Code)

(770) 393-2662  
(Registrant's telephone number, including area code)

N/A  
(Former name, former address and former  
fiscal year, if changed since last report.)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: JULY 31, 2002

Common stock, par value \$.01 - 2,015,885 shares outstanding

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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BUCKHEAD AMERICA CORPORATION  
AND SUBSIDIARIES

Condensed Consolidated Financial Statements

June 30, 2002 and December 31, 2001

and

For the Six Month and Three Month Periods  
Ended June 30, 2002 and 2001

(Unaudited)

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BUCKHEAD AMERICA CORPORATION  
AND SUBSIDIARIES

Condensed Consolidated Balance Sheets  
June 30, 2002 and December 31, 2001

(Unaudited)

Assets

Current assets:

Cash and cash equivalents, including restricted cash of  
\$137,761 at June 30, 2002 and \$329,479 at December 31, 2001  
Investment securities, including restricted securities of  
\$148,270 at June 30, 2002 and \$168,259 at December 31, 2001  
Accounts receivable, net  
Current portions of notes receivable, net  
Property, equipment, and leasehold interests held for sale, net  
Deferred costs relating to franchise rights held for sale  
Other current assets

Total current assets

Noncurrent portions of notes receivable, net  
Property, equipment, and leasehold interests held for sale, net  
Other property and equipment, at cost, net  
Deferred costs

Liabilities and Shareholders' Deficit

Current liabilities:

Accounts payable

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|   |       |
|---|-------|
| Accrued expenses  |       |
| Current portions of notes payable   |       |
|   | ----- |
| Total current liabilities   |       |
| Noncurrent portions of notes payable  |       |
| Other liabilities   |       |
|   | ----- |
| Total liabilities   |       |
|   | ----- |
| Minority interests  |       |
| Shareholders' deficit:  |       |
| Series B preferred stock; par value \$100; 200,000 shares authorized; 30,000 shares issued and outstanding    |       |
| Common stock; \$.01 par value; 5,000,000 shares authorized; 2,113,881 shares issued and 2,015,885 outstanding |       |
| Additional paid-in capital  |       |
| Accumulated deficit   |       |
| Treasury stock, 97,996 common shares  |       |
|   | ----- |
| Total shareholders' deficit   |       |
|   | ----- |
|   | \$    |
|   | ===== |

See accompanying notes to condensed consolidated financial statements.

BUCKHEAD AMERICA CORPORATION  
AND SUBSIDIARIES

Condensed Consolidated Statements of Income (Loss)  
Six Months ended June 30, 2002 and 2001  
(Unaudited)

|                                    |              |
|------------------------------------|--------------|
|                                    | 2002         |
|                                    | -----        |
| Revenues:                          |              |
| Hotel revenues                     | \$ 3,598,089 |
| Investment income                  | 185,879      |
| Other income                       | 27,987       |
|                                    | -----        |
| Total revenues                     | 3,811,955    |
|                                    | -----        |
| Expenses:                          |              |
| Hotel operations                   | 3,141,906    |
| Other operating and administrative | 589,975      |
| Leasehold rent                     | 463,909      |
| Interest                           | 898,387      |

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|  |                |
|--|----------------|
| Depreciation and amortization  | 6,000          |
|  | -----          |
| Total expenses   | 5,100,177      |
|  | -----          |
| Loss from continuing operations before income taxes  | (1,288,222)    |
| Provision for income taxes   | -              |
|  | -----          |
| Loss from continuing operations  | \$ (1,288,222) |
|  | -----          |
| Discontinued operations:   |                |
| Income (loss) from operations of hotel management segment<br>and hotel franchising segment | 330,490        |
|  | -----          |
| Net loss   | \$ (957,732)   |
|  | =====          |
| Net income (loss) per common share:  |                |
| Basic:   |                |
| Continuing operations  | \$ (0.71)      |
| Discontinued operations  | 0.16           |
|  | -----          |
| Net loss   | \$ (0.55)      |
|  | =====          |
| Diluted:   |                |
| Continuing operations  | \$ (0.71)      |
| Discontinued operations  | 0.16           |
|  | -----          |
| Net loss   | \$ (0.55)      |
|  | =====          |
| Weighted average number of shares used to<br>calculate net income (loss) per common share: |                |
| Basic  | 2,015,885      |
|  | =====          |
| Diluted  | 2,015,885      |
|  | =====          |

See accompanying notes to condensed consolidated financial statements.

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|  | 2002         |
|--|--------------|
|  | -----        |
| Revenues:  |              |
| Hotel revenues   | \$ 1,483,429 |
| Investment income  | 74,944       |
| Other income   | 1,270        |
|  | -----        |
| Total revenues   | 1,559,643    |
|  | -----        |
| Expenses:  |              |
| Hotel operations   | 1,151,129    |
| Other operating and administrative   | 325,823      |
| Leasehold rent   | 206,930      |
| Interest   | 404,094      |
| Depreciation and amortization  | 3,000        |
|  | -----        |
| Total expenses   | 2,090,976    |
|  | -----        |
| Loss from continuing operations before income taxes  | (531,333)    |
| Provision for income taxes   | -            |
|  | -----        |
| Loss from continuing operations  | \$ (531,333) |
|  | -----        |
| Discontinued operations:   |              |
| Income from operations of hotel management segment<br>and hotel franchising segment        | 161,511      |
|  | -----        |
| Net loss   | \$ (369,822) |
|  | =====        |
| Net income (loss) per common share:  |              |
| Basic:   |              |
| Continuing operations  | \$ (0.30)    |
| Discontinued operations  | 0.08         |
|  | -----        |
| Net loss   | \$ (0.22)    |
|  | =====        |
| Diluted:   |              |
| Continuing operations  | \$ (0.30)    |
| Discontinued operations  | 0.08         |
|  | -----        |
| Net loss   | \$ (0.22)    |
|  | =====        |
| Weighted average number of shares used to<br>calculate net income (loss) per common share: |              |
| Basic  | 2,015,885    |
|  | =====        |

Diluted

2,015,885

=====

See accompanying notes to condensed consolidated financial statements.

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BUCKHEAD AMERICA CORPORATION  
AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows  
Six Months Ended June 30, 2002 and 2001  
(Unaudited)

Cash flows from operating activities:

Loss from continuing operations \$  
Adjustments to reconcile loss from continuing operations  
to net cash used in continuing operating activities:  
Depreciation and amortization  
Minority interest in loss  
Decrease (increase) in accounts receivable  
(Decrease) increase in accounts payable and accrued expenses  
Other, net

Net cash used in continuing operating activities

Net cash (used in) provided by discontinued operations

Net cash used in operations

Cash flows from investing activities:

Principal receipts on notes receivable  
Originations of notes receivable  
Capital expenditures  
Proceeds from property and leasehold interest sales, net  
Other, net

Net cash provided by investing activities

Cash flows from financing activities:

Repayments of notes payable  
Proceeds from notes payable  
Distributions to minority interest partners  
Preferred stock dividends paid  
Other, net

Net cash used in financing activities

Net decrease in cash and cash equivalents

Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

See accompanying notes to condensed consolidated financial statements.

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BUCKHEAD AMERICA CORPORATION  
AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
June 30, 2002 and 2001  
(Unaudited)

(1) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements 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 of normal recurring accruals) considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of the results that may be expected for a full year or any other interim period. For further information, see the consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2001.

(2) Comprehensive Loss

Total comprehensive loss for the six months ended June 30, 2002 and 2001 was \$(957,732) and \$(1,853,823), respectively, and for the three months ended June 30, 2002 and 2001 was \$(369,822) and \$(447,175), respectively.

(3) Operating Segments and Discontinued Operations

The Company conducted recurring operations in three segments of the limited-service hotel industry - hotel franchising, hotel management, and hotel operations. The Company generates additional revenues and results of operations from hotel development and sale activities which also include servicing notes receivable generated from hotel sales.

During the fourth quarter of 2001, the Company adopted a plan to discontinue its hotel management activities. During the second quarter of 2002, the Company categorized its hotel franchising business as held for sale. Since the Company has determined to discontinue the hotel management and hotel franchising segments of its business, the net results of operations and cash flows from these segments are segregated and reported separately from the results of operations and cash flows from continuing operations.

BUCKHEAD AMERICA CORPORATION  
AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
June 30, 2002 and 2001  
(Unaudited)

Condensed operating results for each continuing segment for the six months ended June 30, 2002 and 2001 are presented below:

|                                      | Six months ended June 30, 2002 |                            |           |
|--------------------------------------|--------------------------------|----------------------------|-----------|
|                                      | Hotel<br>Operations            | Development<br>& Corporate | Consolida |
| Revenues                             | \$ 3,598,089                   | 213,866                    | 3,811,    |
| Expenses                             | 3,141,906                      | 589,975                    | 3,731,    |
| EBITDAR*                             | 456,183                        | (376,109)                  | 80,       |
| Rent                                 | 463,909                        |                            | 463,      |
| Interest                             | 590,357                        | 308,030                    | 898,      |
| Depreciation                         | -                              | 6,000                      | 6,        |
| Income (loss) before<br>income taxes | \$ (598,083)                   | (690,139)                  | (1,288,   |

|              | Six months ended June 30, 2001 |                            |           |
|--------------|--------------------------------|----------------------------|-----------|
|              | Hotel<br>Operations            | Development<br>& Corporate | Consolida |
| Revenues     | \$ 9,365,295                   | 245,781                    | 9,611,    |
| Expenses     | 7,369,028                      | 711,620                    | 8,080,    |
| EBITDAR*     | 1,996,267                      | (465,839)                  | 1,530,    |
| Rent         | 1,330,754                      |                            | 1,330,    |
| Interest     | 1,222,677                      | 334,736                    | 1,557,    |
| Depreciation | 400,500                        | 12,000                     | 412,      |



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|                                      |              |           |             |
|--------------------------------------|--------------|-----------|-------------|
| Income (loss) before<br>income taxes | \$ (957,664) | (812,575) | (1,770,239) |
|                                      | =====        | =====     | =====       |

\* Earnings before interest, taxes, depreciation, amortization and rent

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BUCKHEAD AMERICA CORPORATION  
AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements  
June 30, 2002 and 2001  
(Unaudited)

Condensed operating results for each continuing segment for the three months ended June 30, 2002 and 2001 are presented below:

|                                      | Three months ended June 30, 2002 |                            |              |
|--------------------------------------|----------------------------------|----------------------------|--------------|
|                                      | Hotel<br>Operations              | Development<br>& Corporate | Consolidated |
|                                      | -----                            | -----                      | -----        |
| Revenues                             | \$ 1,483,429                     | 76,214                     | 1,559,643    |
| Expenses                             | 1,151,129                        | 325,823                    | 1,476,952    |
|                                      | -----                            | -----                      | -----        |
| EBITDAR*                             | 332,300                          | (249,609)                  | 82,691       |
| Rent                                 | 206,930                          |                            | 206,930      |
| Interest                             | 250,434                          | 153,660                    | 404,094      |
| Depreciation                         | -                                | 3,000                      | 3,000        |
|                                      | -----                            | -----                      | -----        |
| Income (loss) before<br>income taxes | \$ (125,064)                     | (406,269)                  | (531,333)    |
|                                      | =====                            | =====                      | =====        |

|  | Three months ended June 30, 2001 |                            |              |
|--|----------------------------------|----------------------------|--------------|
|  | Hotel<br>Operations              | Development<br>& Corporate | Consolidated |
|  | -----                            | -----                      | -----        |

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|                                      |              |           |        |
|--------------------------------------|--------------|-----------|--------|
| Revenues                             | \$ 5,088,520 | 124,586   | 5,213, |
| Expenses                             | 3,624,019    | 424,195   | 4,048, |
|                                      | -----        | -----     | -----  |
| EBITDAR*                             | 1,464,501    | (299,609) | 1,164, |
| Rent                                 | 691,514      |           | 691,   |
| Interest                             | 576,462      | 170,338   | 746,   |
| Depreciation                         | 189,926      | 6,000     | 195,   |
|                                      | -----        | -----     | -----  |
| Income (loss) before<br>income taxes | \$ 6,599     | (475,947) | (469,  |
|                                      | =====        | =====     | =====  |

\* Earnings before interest, taxes, depreciation, amortization and rent

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Material Changes in Financial Condition

The Company conducted recurring operations in three segments of the limited-service hotel industry - hotel franchising, hotel management, and hotel operations. The Company generates additional revenues and results of operations from hotel development and sale activities which also include servicing notes receivable generated from hotel sales.

During the fourth quarter of 2001, the Company adopted a plan to discontinue its hotel management activities. During the second quarter of 2002, the Company categorized its hotel franchising business as held for sale. Since the Company has determined to discontinue the hotel management and hotel franchising segments of its business, the net results of operations and cash flows from these segments are segregated and reported separately from the results of operations and cash flows from continuing operations.

The Company completed its exit from the hotel management business during the second quarter of 2002. Certain continuing obligations remain, principally rent, tax compliance, and other compliance reporting. The Company's June 30, 2002 balance sheet includes current liabilities of approximately \$350,000 relating to such obligations.

The Board of Directors has approved the sale of the Company's hotel franchising business. The Company's June 30, 2002 balance sheet includes deferred costs of \$879,145 relating to the hotel franchising business. Management expects proceeds from the sale to exceed such amount, therefore no provision for loss has been made. The timing and ultimate proceeds from the anticipated sale remain uncertain.

The Company experienced negative cash flow from operations of approximately \$1.9

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million during the first half of 2002, including approximately \$415,000 relating to the Company's discontinued hotel management and hotel franchising segments. The Company also repaid approximately \$530,000 of debt obligations, not including repayments related to the sale of properties (see below). Cash inflows of approximately \$570,000 resulted from principal receipts on notes receivable and over \$1.6 million from the sale of hotel properties after the repayment of approximately \$6.2 million of related mortgage obligations. The combined effect of these and other activities resulted in a decrease in cash of approximately \$312,000 from December 31, 2001. The Company's hotel operations are highly seasonal. Historically, the Company's hotel revenues and operating profits have been stronger during the second and third quarters as opposed to the first and fourth quarters. Management expects this trend to continue and believes that additional cash will be generated from third quarter hotel operations, from additional sales of hotel properties, and possibly from the sale of other assets.

As of December 31, 2001 the Company had 15 owned or leased properties classified as held for sale. Seven hotel properties were sold during the first and second quarters of 2002 and an additional property was sold in July 2002. Two others are presently under contract for sale. Further, three long-term hotel leases were terminated during the first quarter. All of the Company's remaining owned hotels are held for sale.

The Company is also exploring the possibility of selling its notes receivable portfolio. If the Company completes the sale of its hotel franchising business, its hotels, and its notes receivable portfolio; virtually all of the Company's assets will have been sold and the Company's operations, as presently configured, will have ceased.

### Liquidity and Capital Resources

The Company has suspended payment of preferred stock dividends and has negotiated deferrals of certain note payable obligations. The Company has significantly reduced personnel and implemented a salary deferral program. Certain other overhead costs have been reduced or eliminated. The combination of these and the previously discussed actions are expected to reduce the Company's negative cash flow from operations to an amount which management expects could be funded from continued property sales and other sources.

The Company is presently in default on certain of its note payable obligations. Management is presently conducting negotiations with certain of its creditors regarding the modification of repayment terms. If such negotiations are not successful, the Company will most likely not be able to satisfy all its obligations as they become due.

Management is also exploring other sources of liquidity as further described above. No assurance can be given that any of the previously described activities will be successful. These circumstances raise substantial doubt about the Company's ability to continue as a going concern.

### Contractual Commitments

Following is a summary of the Company's material contractual cash commitments as of June 30, 2002:

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| Due In:           | * Notes<br>Payable | Operating<br>Lease Payments | ** Contingent<br>Obligations |
|-------------------|--------------------|-----------------------------|------------------------------|
|                   | -----              | -----                       | -----                        |
| Remainder of 2002 | \$ 8,537,680       | 459,596                     | 700,068                      |
| 2003              | 751,641            | 717,120                     | 1,230,251                    |
| 2004              | 692,507            | 697,184                     | 992,228                      |
| 2005              | 468,305            | 637,655                     | 742,700                      |
| 2006              | 325,669            | 617,100                     | 674,556                      |
| Thereafter        | 7,289,132          | 5,228,300                   | 7,220,409                    |
|                   | -----              | -----                       | -----                        |
|                   | \$ 18,064,934      | 8,356,955                   | 11,560,212                   |
|                   | =====              | =====                       | =====                        |

\* Includes capital lease obligations of \$115,006 in 2002.

\*\* Contingent obligations consist of rent and debt payments relating to leases and notes payable on which other entities are primarily obligated. (See "ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.") The Company will become responsible for such obligations should the primary obligors default. Thus far, the Company has not been required to make any such payments. If management determines that the Company will more likely than not be required to make any payments relating to contingent obligations, the liability for such will be accrued and reported as an obligation of the Company.

Material Changes in Results of Operations

The decline in hotel revenues is principally attributable to the 2001 and 2002 property sales. Same hotel revenues in the aggregate declined from the same three and six month periods in 2001 which continues to reflect the weakened economic conditions affecting the hospitality industry. The property sales and revenue declines resulted in reduced earnings before interest, taxes, depreciation, amortization and rent ("EBITDAR") from the hotel operations segment from \$1,996,267 in the first half of 2001 to \$456,183 in the current half and from \$1,464,501 in the second quarter of 2001 to \$332,300 in the current second quarter. Negotiated first quarter rent abatements relating to terminated leases and the elimination of depreciation expense relating to properties held for sale resulted in a reduction of the first half hotel operations segment loss of approximately \$360,000. The net second quarter results declined by over \$130,000 in spite of a \$190,000 decrease in depreciation expense. This indicates that the properties which remain held by the Company are not as profitable as the properties which have been sold. Management expects continued reductions in hotel revenues, EBITDAR, and segment losses as additional properties are sold and leases terminated.

As discussed above, due to the planned sale of the Company's hotel franchising business, its results are included in discontinued operations. Had its results been included in continuing operations, the hotel franchising segment results would have been reported as follows:

| Six Months<br>June 30, 2002 | Six Months<br>June 30, 2001 | Three Months<br>June 30, 2002 |
|-----------------------------|-----------------------------|-------------------------------|
| -----                       | -----                       | -----                         |

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|                            |            |           |         |
|----------------------------|------------|-----------|---------|
| Revenues                   | \$ 803,247 | 1,010,592 | 394,297 |
| Expenses                   | 409,757    | 570,842   | 201,286 |
|                            | -----      | -----     | -----   |
| EBITDAR                    | 393,490    | 439,750   | 193,011 |
| Amortization               | 63,000     | 63,000    | 31,500  |
|                            | -----      | -----     | -----   |
| Income before income taxes | \$ 330,490 | 376,750   | 161,511 |
|                            | =====      | =====     | =====   |

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The hotel management segment lost \$423,784 and \$168,738 during the six and three month periods ended June 30, 2001, respectively. Such amounts are included in discontinued operations. Net expenditures of approximately \$750,000 relating to the operation of and phasing out of the hotel management business were made during the first half of 2002 and were charged to previously established reserves for such. As discussed above, management expects approximately \$350,000 of additional expenditures to be made.

Net losses of approximately \$3.8 million resulting from first and second quarter 2002 hotel property sales were charged to previously established impairment allowances and therefore had no impact on 2002 net loss. Net losses of approximately \$1.3 million resulting from first and second quarter 2001 hotel property sales were charged to previously established impairment allowances and therefore had no impact on 2001 net loss.

Corporate expenses, EBITDAR loss, and loss before income taxes decreased from the first and second quarters of 2001. This is primarily attributable to expense reductions which were offset somewhat by increased professional fees. Management expects this may continue.

The Company files income tax returns and recognizes income tax expense (benefit) on an annual calendar basis. In the fourth quarter of 2000, management elected to establish a valuation allowance for the full amount of the Company's deferred tax assets. Consequently, no deferred tax benefit has been recognized in 2001 or 2002.

Risk Factors

This Form 10-Q contains forward looking statements that involve risks and uncertainties. Statements contained in this Form 10-Q that are not historical facts are forward looking statements that are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. The Company's actual results may differ significantly from the results indicated by such forward looking statements.

The Company is subject to a number of risks, including the general risks of investing in real estate, the illiquidity of real estate, environmental risks, possible uninsured or under insured losses, fluctuations in property taxes, hotel operating risks, the impact of competition, the difficulty of managing growth, seasonality, the risks inherent in operating a hotel franchise business, and the uncertainty of obtaining additional financing or extensions of existing

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credit facilities as needed. For a discussion of these and other risk factors, see the "RISK FACTOR" section contained in the Company's Registration Statement on Form S-3 (File No. 333-37691). Also see "Liquidity and Capital Resources" above and "Item 3. Quantitative and Qualitative Disclosures About Market Risk."

### Critical Accounting Policies

The Company defines critical accounting policies as those accounting policies that require management to exercise their most difficult, subjective and complex judgements.

### Discontinued Operations

The Company reports its results of discontinued operations in accordance with APB Opinion No. 30, Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. Under APB Opinion No. 30, since the Company has determined to discontinue the hotel management segment of its business and to sell its hotel franchising business, the net results of operations and cash flows from the management and franchising segments are segregated and reported separately from the results of operations and cash flows from continuing operations. Additionally, costs associated with the phasing out of the management segment and the expected losses to be sustained during the phase out period were accrued in the fourth quarter of 2002 and reported as an additional component of discontinued operations. Such accrued costs are based on management's current best estimates and are subject to changes based on future events.

### Property, Equipment, and Leasehold Interests Held for Sale

Property, equipment, and leasehold interests held for sale are stated at the lower of cost or fair value less costs to sell. Fair value of property and

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leasehold interests held for sale has been determined by the Company based upon current market information assuming a non-distressed sale. Future events, such as a forced liquidation, could negatively impact such values. At the date on which a decision is made to dispose of a property or leasehold interest, any amount by which the carrying amount of an asset exceeds the fair value less cost to sell is reported as a provision for impairment. Due to the intent of the Company to dispose of such properties and leasehold interests in the short-term, the properties, leasehold interests, and all related notes payable are initially reflected as current in the consolidated balance sheets. Properties and leasehold interests which have remained held for sale for more than one year and are not under contract for sale are classified as noncurrent.

### Going Concern

Management is continuing negotiations with creditors for extensions and/or reductions of obligations. Management believes that it is possible that current obligations in 2002 could be met through assets sales and restructuring of certain obligations. However, no assurance can be given that such activities will be successful. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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### Effect of New Accounting Pronouncements

In April 2002, the FASB issued SFAS 145 "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The Company is required to adopt SFAS 145 on January 1, 2003. SFAS 145 significantly limits the treatment of losses associated with early extinguishment of debt as an extraordinary item. SFAS 145 also impacts certain sale-leaseback transactions. Upon adoption, management does not believe that SFAS 145 will have a material impact on the Company's financial position, results of operations or cash flows.

In July 2002, the FASB issued SFAS 146 "Accounting for Costs Associated with Exit or Disposal Activities." The Company is required to adopt SFAS 146 on January 1, 2003. SFAS 146 requires that expenses associated with restructuring charges be accrued as liabilities in the period in which the liability is incurred. Management does not anticipate the adoption of SFAS 146 will have a material impact on the Company's financial position, results of operations or cash flows.

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### Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2002, the Company's obligations included variable rate mortgage notes and a bank note with aggregate principal balances of \$1,553,095 which mature at various dates through 2015. The Company is exposed to the market risk of significant increases in future interest rates. Each incremental point increase in the prime interest rate would increase the Company's interest expense by approximately \$15,500 per year. This risk is somewhat mitigated in that inflationary increases in interest rates would theoretically result in increases in average hotel room rates. Also, significant increases in interest rates would have a dampening effect on additions of competitive hotels in the Company's markets.

At June 30, 2002, the Company's unrestricted investment securities included equity securities valued at \$21,513. The Company is exposed to the risk that such securities will become worthless. The Company's restricted investment securities also include equity securities. Such restricted securities comprise the assets of the Company's deferred compensation plan and changes in the value of such securities have no net impact on the Company's earnings.

The ultimate collection of the Company's notes receivable is subject to various credit risks. Net notes receivable at June 30, 2002 amounted to \$4,974,765 and consisted of 31 notes, most of which were collateralized by or related to various hotel assets. Additionally, the Company remains contingently liable on four mortgage notes payable on which the Company is guarantor relating to properties sold in 2000, 2001, and 2002. The notes' balances at June 30, 2002 were approximately \$5 million and the notes are due in aggregate monthly installments of \$47,945. The Company also remains contingently liable for future minimum rental payments totaling approximately \$1.9 million on sold leasehold interests and on subleased and assigned properties and equipment in the event of default by the purchasers, sublessees and/or assignees. The collection of such notes receivable and the potential financial exposure for guaranteed note obligations and contingent rents is determined by the ability of other hotel operators to satisfy these obligations. Their ability to satisfy such

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obligations is subject to many risks, including economic conditions affecting the hotel industry, their ability to effectively manage their hotel assets, new competition, and other factors. See "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. - Contractual Commitments" for a summary of contingent liabilities.

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### PART II - OTHER INFORMATION

#### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As of August 14, 2002, a total of \$231,250 of Series B preferred dividends are in arrears.

As of August 14, 2002, a total of \$293,570 of accrued interest which was previously due and payable remained unpaid on the Company's convertible debenture notes.

#### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders on June 20, 2002. The purpose of the meeting was to consider and vote upon the following matters:

1. To elect five directors to serve until the next annual meeting of stockholders and until their successors are elected and have qualified.
2. To transact such other business as may have properly come before the meeting.

The Company's five incumbent directors (Douglas C. Collins, David C. Glickman, Robert B. Lee, David B. Mumford, and Steven A. Van Dyke) were nominated for re-election. Each of the nominees was elected as follows:

|                    | Votes For | Votes Withheld |
|--------------------|-----------|----------------|
|                    | -----     | -----          |
| Douglas C. Collins | 1,627,530 | 4,722          |
| David C. Glickman  | 1,627,425 | 4,827          |
| Robert B. Lee      | 1,627,535 | 4,717          |
| David B. Mumford   | 1,627,294 | 4,958          |
| Steven A. Van Dyke | 1,627,425 | 4,827          |

No other matters came before the meeting.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (A) EXHIBIT INDEX

| Exhibit | Description                                 |
|---------|---|
| -----   | -----                                       |
| 3(i)    | Articles of Incorporation. (Incorporated by |



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reference to Exhibit 3(i) to the Registrant's Registration Statement on Form 10-SB (No.0-22132) which became effective on November 22, 1993.)

3 (i) (a) Certificate of Amendment of Certificate of Incorporation. (Incorporated by reference to Exhibit 3(i)(a) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994.)

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3 (i) (b) Certificate of Amendment of Certificate of Incorporation. (Incorporated by reference to Appendix "A" to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on June 9, 1997.)

3 (i) (c) Certificate of Amendment of Certificate of Incorporation. (Incorporated by reference to Appendix "A" to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on May 5, 1998.)

3(ii) By-Laws - Amended and Restated as of June 27, 1994. (Incorporated by reference to Exhibit 3(ii) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1994.)

4 (i) Certificate of Designation, Preferences and Rights of Series B Preferred Stock of the Registrant. (Incorporated by reference to Exhibit 4(i) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.)

11 Statement re: Computation of per share Earnings

99.1 Certification of Periodic Financial Report

(B) REPORTS ON FORM 8-K

On or about May 28, 2002, the Company filed a Current Report on Form 8-K which reported the Company's imminent delisting of its common shares by The Nasdaq Stock Market, Inc.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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Buckhead America Corporation  
(Registrant)

August 19, 2002  
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Date

/s/ Douglas C. Collins  
-----

Douglas C. Collins  
President and Chief Executive Officer

August 19, 2002  
-----

Date

/s/ Robert B. Lee  
-----

Robert B. Lee  
Senior Vice President and  
Chief Financial and Accounting Officer