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BUCKHEAD AMERICA CORP
Form 10-Q
May 15, 2001

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 MARCH 31, 2001

☐ 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 | 58-2023732 |
| (State or other jurisdiction of incorporation or organization) | (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: April 30, 2001

Common stock, par value \$.01 - 1,970,779 shares outstanding

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BUCKHEAD AMERICA CORPORATION AND SUBSIDIARIES

Condensed Consolidated Financial Statements

March 31, 2001 and 2000

(Unaudited)

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BUCKHEAD AMERICA CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets March 31, 2001 and December 31, 2000 (Unaudited)

| | March 31, 2001 |
|---|-------------------|
| ASSETS | ----- |
| Current assets: | |
| Cash and cash equivalents, including restricted cash of \$407,264 at March 31, 2001 and \$382,646 at December 31, 2000 | \$ 1,244,158 |
| Investment securities, including restricted securities of \$162,809 at March 31, 2001 and \$182,067 at December 31, 2000 | 185,467 |
| Accounts receivable, net | 1,766,893 |
| Current portions of notes receivable, net | 527,361 |
| Property held for sale, net | 16,480,814 |
| Other current assets | 221,995 |
| | ----- |
| Total current assets | 20,426,688 |
| Noncurrent portions of notes receivable, net | 4,002,158 |
| Property and equipment, at cost, net | 20,991,619 |
| Other assets | 3,118,747 |
| | ----- |
| | \$48,539,212 |
| | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | |
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 3,753,574 |
| Current portions of notes payable | 15,039,677 |
| | ----- |
| Total current liabilities | 18,793,251 |
| Noncurrent portions of notes payable | 16,579,722 |
| Other liabilities | 210,903 |

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| | |
|--|--------------|
| Total liabilities | 35,583,876 |
| Minority interests | 646,178 |
| Shareholders' equity: | |
| Series B preferred stock; par value \$100; 200,000 shares authorized; 30,000 shares issued and outstanding | 3,000,000 |
| Common stock; \$.01 par value; 5,000,000 shares authorized; 2,113,881 shares issued and 2,015,885 and 2,025,023 shares outstanding at March 31, 2001 and December 31, 2000, respectively | 21,139 |
| Additional paid-in capital | 7,897,530 |
| Retained earnings | 2,347,142 |
| Accumulated other comprehensive loss | (269,336) |
| Treasury stock, 97,996 and 88,858 common shares at March 31, 2001 and December 31, 2000, respectively | (687,317) |
| Total shareholders' equity | 12,309,158 |
| | \$48,539,212 |
| | ===== |

See accompanying notes to condensed consolidated financial statements.

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BUCKHEAD AMERICA CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Income (Loss) Three Months ended March 31, 2001 and 2000 (Unaudited)

| | |
|---|--------------|
| | 2001 |
| Revenues: | |
| Hotel revenues | \$ 4,276,775 |
| Franchise fees, management fees, and other income | 606,311 |
| Interest income | 120,489 |
| Total revenues | 5,003,575 |
| Expenses: | |
| Hotel operations | 3,643,604 |
| Other operating and administrative | 1,002,278 |
| Leasehold rent | 639,240 |
| Depreciation and amortization | 290,381 |
| Interest | 810,613 |
| Total expenses | 6,386,116 |

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| | |
|--|-----------------------|
| Income (loss) before income taxes | (1,382,541) |
| Deferred income tax benefit | - |
| Net income (loss) | <u>\$ (1,382,541)</u> |
| Net income (loss) per common share: | |
| Basic | <u>\$ (0.72)</u> |
| Diluted | <u>\$ (0.72)</u> |
| Weighted average number of shares used to calculate net income (loss) per common share: | |
| Basic | <u>2,019,033</u> |
| Diluted | <u>2,019,033</u> |

See accompanying notes to condensed consolidated financial statements.

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BUCKHEAD AMERICA CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows Three Months Ended March 31, 2001 and 2000 (Unaudited)

| | |
|---|--------------------|
| | 2001 |
| | ---- |
| Cash flows from operating activities: | |
| Net income (loss) | \$ (1,382,541) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | |
| Depreciation and amortization | 290,381 |
| Minority interest in income (loss) | (96,306) |
| Deferred income tax expense (benefit) | - |
| Other, net | 59,817 |
| Net cash provided by (used in) operating activities | <u>(1,128,649)</u> |
| Cash flows from investing activities: | |
| Principal receipts on notes receivable | 392,696 |
| Originations of notes receivable | (95,000) |
| Capital expenditures | (96,455) |
| Proceeds from property and leasehold interest sales, net | 800,782 |
| Net cash provided by (used in) investing activities | <u>1,002,023</u> |
| Cash flows from financing activities: | |

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| | |
|--|--------------|
| Repayments of notes payable | (155,033) |
| Proceeds from notes payable | 240,000 |
| Distributions to minority interest partners | (21,584) |
| Other, net | (38,270) |
| | ----- |
| Net cash provided by (used in) financing activities | 25,113 |
| | ----- |
| Net increase (decrease) in cash and cash equivalents | (101,513) |
| Cash and cash equivalents at beginning of period | 1,345,671 |
| | ----- |
| Cash and cash equivalents at end of period | \$ 1,244,158 |
| | ===== |

See accompanying notes to condensed consolidated financial statements.

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BUCKHEAD AMERICA CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements March 31, 2001 and 2000 (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, 2000.

(2) Comprehensive Income (Loss)

Comprehensive income (loss) for the three months ended March 31, 2001 and 2000 was \$(1,406,648) and \$(247,768), respectively.

(3) Segment Information

Condensed operating results for each Company segment for the three months ended March 31, 2001 and 2000 is presented below:

| | Three months ended March 31, 2001 | | | | |
|----------|-----------------------------------|---------------------|----------------------|----------------------------|--------------|
| | Hotel Ownership | Hotel Management | Hotel Franchising | Development & Corporate | Eliminations |
| Revenues | \$ 4,276,775 | 462,176 | 505,558 | 121,195 | (362,129) |

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| | | | | | |
|-----------------------------------|--------------|-----------|---------|-----------|-----------|
| Expenses | 3,745,009 | 674,915 | 300,662 | 287,425 | (362,129) |
| EBITDAR* | 531,766 | (212,739) | 204,896 | (166,230) | |
| Rent | 639,240 | | | | |
| Depreciation | 210,574 | 42,307 | 31,500 | 6,000 | |
| Interest | 646,215 | - | - | 164,398 | |
| Income (loss) before income taxes | \$ (964,263) | (255,046) | 173,396 | (336,628) | |

Three months ended March 31, 2001

| | Hotel Ownership | Hotel Management | Hotel Franchising | Development & Corporate | Eliminations |
|-----------------------------------|--------------------|---------------------|----------------------|----------------------------|--------------|
| Revenues | \$ 5,950,595 | 439,569 | 442,538 | 130,393 | (412,627) |
| Expenses | 4,394,509 | 514,662 | 256,806 | 390,318 | (412,627) |
| EBITDAR* | 1,556,086 | (75,093) | 185,732 | (259,925) | |
| Rent | 652,122 | | | | |
| Depreciation | 352,502 | 31,443 | 31,500 | 6,000 | |
| Interest | 559,525 | - | - | 155,923 | |
| Income (loss) before income taxes | \$ (8,063) | (106,536) | 154,232 | (421,848) | |

* 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 experienced negative cash flow from operations of approximately \$1.1 million during the first quarter of 2001. The Company also repaid approximately \$155,000 of debt obligations and invested approximately \$96,000 in capital expenditures for improvements and replacements on existing properties. Cash inflows of approximately \$393,000 resulted from principal receipts on notes receivable and nearly \$801,000 from the sale of hotel properties. The Company also drew down the remaining \$240,000 on its bank line of credit. The combined effect of these and other activities resulted in a decrease in cash of approximately \$102,000 from December 31, 2000. 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 second and third quarter operations and from additional sales of hotel properties.

As of December 31, 2000 the Company had 17 owned or leased properties classified

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as held for sale. Four of these properties were sold during the first quarter of 2001 and three others are presently under contract for sale. Management is also evaluating other owned hotel properties for their potential for sale and the resulting impact on the Company.

Management has negotiated the extension of payment terms for certain of its unsecured borrowings and is presently discussing extension terms with other lenders. The suspension of preferred stock dividends has been continued. Certain staff and executive level positions in the Company's hotel management and hotel franchising operations have been eliminated. Capital expenditure commitments have been limited and certain previous lease commitments have been cancelled.

Adequate liquidity for future operations will be dependent upon the generation of significant cash proceeds from hotel property sales and the timing thereof.

Material Changes in Results of Operations

The decline in revenues and increase in net loss in the first quarter of 2001 versus 2000 is mostly attributable to the loss of the Company's Orlando and Daytona, Florida hotel properties. The Orlando hotel property lease expired at the end of 2000 and the Daytona hotel was sold in September 2000. The combined revenues and income before taxes from these two hotels in the first quarter of 2000 amounted to approximately \$1,820,000 and \$670,000 respectively.

Owned and leased hotel earnings before interest, taxes, depreciation, amortization and rent ("EBITDAR") decreased approximately \$740,000 from the first quarter of 2000 as a result of the loss of the Orlando and Daytona hotels. The remaining decrease in 2001 is attributable to a 16% revenue decline in the hotels leased from Host Funding and slighter revenue declines in certain other owned hotel properties which are presently held for sale. The Company's Rural Gold properties generally performed the same as or slightly ahead of the prior year quarter.

The increase in owned and leased hotel first quarter loss before income taxes was not as significant as the EBITDAR decline due primarily to reductions in depreciation expense resulting from 2000 and 2001 property sales and the non-recognition of depreciation on properties held for sale. Interest expense increased as a result of hotel acquisitions made in 2000. Interest expense is expected to decrease in future periods as additional properties are sold.

Hotel management EBITDAR and loss before income taxes declined approximately \$138,000 and \$149,000, respectively, from the first quarter of 2000. This decline is attributable to increased payroll costs resulting from severance payments relating to eliminated positions and the addition of three sales and marketing positions since the first quarter of 2000 in an effort to improve revenues at Company and third party owned hotels. Also note that hotel management revenues are based on managed hotel gross revenues and are therefore subject to the same seasonality fluctuations as experienced in the owned and leased hotels. In April 2001, nine management contracts relating to hotels owned by affiliates of Quality Lodging LLC were terminated. The Company is contesting the validity of such terminations. The Company's March 31, 2001 balance sheet includes deferred costs of approximately \$900,000 relating to these contracts, and management fees earned from these contracts amounted to approximately \$300,000 annually.

Hotel franchising EBITDAR and income before income taxes increased by approximately \$20,000 in the first quarter of 2001 versus the same period in 2000. Such improvement results primarily from additional franchise property

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openings. Presently there are 59 Country Hearth Inn properties open and an additional 25 properties under development, of which approximately half are expected to open within the next 12 months.

Net losses of approximately \$506,000 resulting from first quarter 2001 hotel property sales were charged to previously established impairment allowances and therefore had no impact on 2001 net loss.

Corporate expenses in the first quarter of 2000 included approximately \$45,000 of nonrecurring professional fee charges. The remaining decrease in 2001 resulted from the termination of an executive officer in the fourth quarter of 2000.

The Company files income tax returns and recognizes income tax expense (benefit) on an annual calendar basis. The deferred income tax benefit recognized in the first quarter of 2000 represented management's estimate of the impact on the annual income tax expense (benefit) which resulted from such quarter's operations. 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.

Effect of New Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities." In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133." SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. SFAS No. 133 and SFAS No. 138 are effective for all fiscal quarters of all fiscal years beginning after June 15, 2000; the Company adopted SFAS No. 133 and SFAS No. 138 on January 1, 2001. The adoption of SFAS No. 133 and SFAS No. 138 did not have a material effect on the Company's financial statements as the Company had no derivative instruments as of March 31, 2001 or December 31, 2000.

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 hotel management business, the risks involved in hotel renovation and construction, and the uncertainty of obtaining additional financing or extensions of existing 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).

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As of March 31, 2001, the Company's obligations included variable rate mortgage notes and a line of credit bank note with aggregate principal balances of \$3,002,761 which mature at various dates through 2015. The Company is exposed to the market risk of significant increases in future interest rates. Each incremental one-point increase in the prime interest rate would increase the Company's interest expense by approximately \$30,000 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 March 31, 2001, the Company's unrestricted investment securities included equity securities valued at \$41,321. 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 March 31, 2001 amounted to \$4,529,519 and consisted of 33 notes, most of which were collateralized by or related to various hotel assets. Also, certain of these notes relate to leasehold interests in hotel properties for which the Company remains contingently liable for future rent payments. The Company is also contingently liable for certain notes payable relating to hotel properties which have been sold. The collection of such notes receivable and the potential financial exposure for contingent rents and note payable obligations is determined by the ability of other hotel operators to satisfy these obligations. Their ability to satisfy such 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.

PART II - OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On September 23, 1997, the Company issued 30,000 unregistered shares of \$100 par value ten percent (10%) nonvoting cumulative Series A Preferred Stock as partial consideration for the acquisition of Hatfield Inns, LLC. Pursuant to a settlement agreement finalized in 2000, certain dividends in arrears were forgiven and the Company agreed to exchange all of the outstanding shares of Series A Preferred Stock for an equal number of unregistered shares of \$100 par value Series B Preferred Stock. The exchange was completed in the first quarter of 2001. The Series B Preferred Stock is nonvoting and accrues cumulative dividends at the rate of 9.25%. The Series B Preferred Stock has certain rights, privileges and preferences that limit and qualify the rights of the Common Shareholders of the Company. Holders of the Series B Preferred Stock are entitled to receive, prior and in preference to any distribution to the holders of Common Stock, cumulative dividends at the rate of 9.25% per annum, to the extent declared by the Board of Directors. All accrued but unpaid dividends of the Series B Preferred Stock must be paid in full before any cash dividend may be declared on the Common Stock. Further, holders of the Series B Preferred

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Stock have certain preferential distribution rights in the event of any liquidation, dissolution or winding-up of the Company. As of March 31, 2001, there was \$115,625 of cumulative preferred dividends in arrears.

Exemption from the registration provisions of the Securities Act of 1933, as amended (the "Securities Act") for the transaction described above was claimed on the basis that such transaction did not constitute an "offer," an "offer to sell," or a "sale" under Section 5 of the Securities Act. Exemption from registration is also claimed under sections 4(2) and 4(6) of the Securities Act and the rules and regulations promulgated thereunder.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBIT INDEX

| Exhibit | Description |
|----------|---|
| 3(i) | Articles of Incorporation.(Incorporated by 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.) |
| 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. |
| 11 | Statement re: Computation of per share Earnings |

(B) REPORTS ON FORM 8-K

On February 20, 2001, the Company filed a current report on Form 8-K regarding the change of the listing of its common stock to The Nasdaq SmallCap Market.

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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.

Buckhead America Corporation

(Registrant)

May 15, 2001

Date

/s/ Douglas C. Collins

Douglas C. Collins
President and Chief Executive Officer

May 15, 2001

Date

/s/ Robert B. Lee

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