

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

CHAMPION ENTERPRISES INC  
Form 10-Q  
November 09, 2001

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

(Mark one)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF  
--- THE SECURITIES EXCHANGE ACT OF 1934.

FOR QUARTER ENDED SEPTEMBER 29, 2001

OR

--- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF  
THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

Commission file number 1-9751

CHAMPION ENTERPRISES, INC.

-----  
(Exact name of registrant as specified in its charter)

MICHIGAN

38-2743168

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(I.R.S. Employer  
Identification No.)

2701 Cambridge Court, Suite 300, Auburn Hills, MI

48326

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code: (248) 340-9090

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  
-----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

## Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

48,210,196 shares of the registrant's \$1.00 par value Common Stock were outstanding as of October 26, 2001.

Page 1 of 18

### PART I. FINANCIAL INFORMATION

#### Item 1. Financial Statements.

CHAMPION ENTERPRISES, INC.  
Consolidated Statements of Operations  
(In thousands, except per share amounts)

	Unaudited Three Months Ended		Unaudited Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Net sales	\$427,642	\$466,068	\$1,182,156	\$1,534,588
Cost of sales	350,175	390,359	983,470	1,289,488
Gross margin	77,467	75,709	198,686	245,100
Selling, general and administrative expenses	67,461	75,420	215,863	223,475
Operating income (loss)	10,006	289	(17,177)	21,625
Interest expense, net	5,190	6,762	17,400	20,575
Income (loss) before income taxes	4,816	(6,473)	(34,577)	1,050
Income taxes (benefits)	2,300	(2,500)	(11,500)	900
Net income (loss)	\$ 2,516	\$ (3,973)	\$ (23,077)	\$ 150
Basic earnings (loss) per share	\$0.05	\$ (0.08)	\$ (0.49)	\$0.00
Weighted shares for basic EPS	47,957	47,248	47,767	47,250
Diluted earnings (loss) per share	\$0.05	\$ (0.08)	\$ (0.48)	\$0.00

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

Weighted shares for diluted EPS	50,942	47,248	47,767	47,336
	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

Page 2 of 18

CHAMPION ENTERPRISES, INC.  
Consolidated Balance Sheets  
(In thousands, except par value)

	Unaudited Sept. 29, 2001	Dec. 30, 2000
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 65,907	\$ 50,143
Accounts receivable, trade	68,021	31,132
Inventories	175,267	217,765
Deferred taxes and other current assets	74,963	77,493
	-----	-----
Total current assets	384,158	376,533
	-----	-----
PROPERTY AND EQUIPMENT		
Cost	309,059	320,873
Less-accumulated depreciation	126,273	113,596
	-----	-----
	182,786	207,277
	-----	-----
GOODWILL		
Cost	320,518	320,656
Less-accumulated amortization	55,305	46,686
	-----	-----
	265,213	273,970
	-----	-----
DEFERRED TAXES AND OTHER ASSETS		
	79,597	84,276
	-----	-----
Total assets	\$ 911,754	\$ 942,056
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Floor plan payable	\$ 68,084	\$ 114,198
Accounts payable	76,087	43,103
Accrued warranty obligations	45,411	49,304
Accrued volume rebates	44,409	45,552
Accrued compensation and payroll taxes	27,408	19,034
Other current liabilities	76,818	71,662

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

Total current liabilities	338,217	342,853
LONG-TERM LIABILITIES		
Long-term debt	224,592	225,634
Deferred portion of purchase price	20,000	39,157
Other long-term liabilities	35,285	37,603
	279,877	302,394
CONTINGENT LIABILITIES (Note 6)		
REDEEMABLE PREFERRED STOCK, no par value, 5,000 shares authorized, 20 issued	20,000	-
SHAREHOLDERS' EQUITY		
Common stock, \$1 par value, 120,000 shares authorized, 47,990 and 47,357 shares issued and outstanding, respectively	47,990	47,357
Capital in excess of par value	32,856	33,116
Retained earnings	194,323	217,650
Accumulated other comprehensive income	(1,509)	(1,314)
Total shareholders' equity	273,660	296,809
Total liabilities and shareholders' equity	\$ 911,754	\$ 942,056

See accompanying Notes to Consolidated Financial Statements.

Page 3 of 18

CHAMPION ENTERPRISES, INC.  
Consolidated Statements of Cash Flows  
(In thousands)

	Unaudited Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (23,077)	\$ 150
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	27,206	30,176
Fixed asset impairment charges	6,500	4,000
Increase/decrease		

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

Accounts receivable	(36,889)	(2,484)
Inventories	42,498	48,225
Accounts payable	32,984	22,409
Accrued liabilities	10,036	921
Net cash charges to independent retailer bankruptcy reserve	-	(12,177)
Other, net	5,969	(9,442)
	-----	-----
Total adjustments	88,304	81,628
	-----	-----
Net cash provided by operating activities	65,227	81,778
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deferred and contingent purchase price payments	(16,633)	(10,165)
Additions to property and equipment	(4,994)	(12,692)
Investments in and advances to unconsolidated subsidiaries	(2,584)	(2,837)
Proceeds on disposal of fixed assets	2,215	3,000
	-----	-----
Net cash used for investing activities	(21,996)	(22,694)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in floor plan payable, net	(46,114)	(41,142)
Increase (decrease) long-term debt	(526)	2,081
Preferred stock issued, net	18,464	-
Common stock issued, net	709	28
Common stock repurchased	-	(863)
	-----	-----
Net cash used for financing activities	(27,467)	(39,896)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,764	19,188
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	50,143	12,847
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 65,907	\$ 32,035
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

CHAMPION ENTERPRISES, INC.

Notes to Consolidated Financial Statements

- The Consolidated Financial Statements are unaudited, but in the opinion of management include all adjustments necessary for a fair presentation of the results of the interim period. Financial results of the interim period are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year. The balance sheet

## Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

as of December 30, 2000 was derived from audited financial statements. Accumulated other comprehensive income consists of foreign currency translation adjustments.

Prior year manufacturing segment delivery revenue has been reclassified to net sales from cost of sales in accordance with the Financial Accounting Standards Board (FASB) Emerging Issues Task Force No. 00-10, "Accounting for Shipping and Handling Fees and Costs," which was adopted by the Company in the fourth quarter of 2000.

2. For each of the dates indicated, inventories consisted of the following (in thousands):

	Sept. 29, 2001	Dec. 30, 2000
	-----	-----
New and pre-owned manufactured homes	\$ 107,884	\$143,892
Raw materials and work-in-process	43,407	44,980
Other inventory	23,976	28,893
	-----	-----
	\$ 175,267	\$217,765
	=====	=====

3. The income tax provision (benefit) differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax income (loss) as a result of the following differences (in thousands):

	Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000
	-----	-----
Statutory U.S. tax rate	\$(12,100)	\$ 400
Change in rate resulting from:		
State taxes, net	(900)	100
Goodwill and other	1,500	400
	-----	-----
Total provision (benefit)	\$(11,500)	\$ 900
	=====	=====
Effective tax rate	33%	86%
	=====	=====

4. The Company has a revolving credit agreement, maturing in May 2003, with a group of banks for a \$75 million secured line of credit. The agreement allows for letters of credit up to \$35 million. Availability under the credit agreement is limited to a borrowing base calculated based on qualifying assets. As of September 29, 2001, the calculated borrowing base was \$70 million and the Company had no cash borrowings and \$35 million of letters of credit outstanding under the facility. In September 2001 and October 2001 the bank agreement was amended to allow



=====

For the quarter ended September 29, 2001, retail EBITA (loss) includes charges of \$3.7 million for estimated losses on retail finance loans and costs to transition existing loans to alternative financing sources. The loan origination subsidiary has stopped originating new loans. For the nine months then ended, retail EBITA (loss) also includes \$3.2 million of non-cash fixed asset impairment charges and \$2.2 million of lease termination and other costs associated with retail sales center closings. Retail EBITA for the prior year's three and nine-month periods included \$1.5 million for non-cash fixed asset impairment charges and \$0.7 million for lease termination and other costs related to closed operations. Retail floor plan interest expense excluded from retail EBITA totaled \$1.9 million and \$6.8 million for the three and nine months ended September 29, 2001, respectively, and \$3.6 million and \$10.2 million for the three and nine months ended September 30, 2000, respectively.

Page 6 of 18

Year-to-date 2001 manufacturing EBITA includes \$3.3 million of non-cash fixed asset impairment charges related to closed plants. For the three months ended September 30, 2000, manufacturing EBITA included \$2.5 million for property insurance gains and \$1.0 million of non-cash fixed asset impairment charges related to closed operations. Manufacturing EBITA for the nine months then ended includes \$6.9 million of property insurance gains, \$1.7 million of employee termination benefits paid upon the closure of three homebuilding facilities and the \$1.0 million impairment charge for fixed assets.

General corporate expenses include \$1.5 million of fixed asset impairment charges for the three and nine-month periods ended September 30, 2000. The charge for potential losses on loans, impairment charges, lease termination costs and insurance gains are included in selling, general and administrative expenses. Employee termination benefits and the loss from independent retailer bankruptcy are included in cost of sales.

6. As is customary in the manufactured housing industry, the majority of Champion's manufacturing sales to independent retailers are made in connection with repurchase agreements with lending institutions that provide wholesale floor plan financing to the retailers. Pursuant to these agreements, for a period of either 12 or 15 months from invoice date of the sale of the homes and upon default by the retailer and repossession by the financial institution, the Company is obligated to purchase the related floor plan loans or repurchase the homes from the lender. The maximum potential repurchase obligation at September 29, 2001 was \$310 million, without reduction for the resale value of the homes. This amount compares to \$430 million at the beginning of the year and \$480 million a year ago. Losses incurred upon the repurchase of homes totaled \$0.2 million and \$3.5 million for the three and nine months ended September 29, 2001, respectively, and \$1.7 million and \$3.7 million for the three and nine months ended September 30, 2000, respectively.

At September 29, 2001 the Company was contingently obligated for



## Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

additional purchase price of up to \$80 million related to its 1999 and 1998 acquisitions. Management currently believes that payment of none of this contingent purchase price is reasonably possible.

Champion is contingently obligated for approximately \$35 million under letters of credit and \$47 million under surety bonds as of September 29, 2001.

7. Substantially all of the Company's subsidiaries are guarantors of indebtedness under the \$200 million Senior Notes. Separate financial statements for each guarantor subsidiary are not included in this filing because each guarantor subsidiary is fully, unconditionally, jointly and severally liable for the Senior Notes. In addition, the parent company issuer has no independent assets or operations and the non-guarantor subsidiaries of the Company, individually or in the aggregate, are minor in relation to consolidated totals of the Company. There are no significant restrictions on the ability of the parent company or any guarantor subsidiary to obtain funds from its subsidiaries by dividend or loan.

Page 7 of 18

8. During June 2001, Champion restructured the payment terms of a deferred purchase price liability totaling \$32 million that was originally scheduled for payment in cash in June 2002. In July 2001 \$6 million of the obligation was paid in cash. The remaining \$26 million is due quarterly, commencing October 2001, in installments of \$2 million without interest, and is payable, at Champion's option, in cash or common stock. In October 2001, Champion paid the first quarterly installment by issuing 220,000 shares of Champion common stock. The terms do not require a payment in April 2002.
9. In July 2001 Champion issued \$20 million of a newly designated class of convertible preferred stock. The preferred stock has a seven-year term with a 5% annual dividend, which is payable quarterly in either cash or common stock, at Champion's option, and is convertible into common stock at a conversion price of \$15.93 per share during the first six months. Six months after issuance the conversion price will be adjusted to 120% of the common stock's market value, subject a minimum of \$7.50 and a maximum of \$15.93 per share. Following 24 months of issuance, the preferred stock is redeemable by the investor in either cash or common stock at the Company's option. At the investor's option, an additional \$12 million of preferred stock can be purchased through March 2003 on similar terms. On September 28, 2001 Champion paid a dividend on the preferred stock by issuing 27,000 shares of Champion common stock.
10. Basic earnings (loss) per share includes the effect of the dividend on preferred stock as calculated below (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Net income (loss)	\$ 2,516	\$ (3,973)	\$ (23,077)	\$ 150
Less: Preferred stock dividend	250	-	250	-

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

Income (loss) available to common shareholders	\$ 2,266	\$ (3,973)	\$ (23,327)	\$ 150
	=====	=====	=====	=====
Basic earnings (loss) per share	\$ 0.05	\$ (0.08)	\$ (0.49)	\$ 0.00
	=====	=====	=====	=====

Diluted earnings (loss) per share is based on net income (loss) without deducting the dividend on preferred stock.

11. In July 2001 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill not be amortized but instead be tested for impairment based on a reporting unit's fair value versus its carrying value. The Company is currently performing the transitional impairment tests required in order to determine each reporting unit's fair value. Champion will adopt SFAS 142 in January 2002 and the impact to the Company's financial statements has not yet been determined. The adoption of this pronouncement will eliminate goodwill amortization expense, which currently approximates \$11.5 million pretax and \$8.7 million after tax annually.

Page 8 of 18

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS 143 requires the recognition of the fair value of an asset retirement obligation in the period in which the obligation is incurred. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS 143 will not have a material effect on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 broadens the presentation of discontinued operations to include any component of an entity which comprises operations and cash flows that can be clearly distinguished from the rest of the entity. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The adoption of SFAS 144 will not have a material effect on the Company's financial statements.

Page 9 of 18

Item 2. Management's Discussion and Analysis of  
Financial Condition and Results of Operations.

CHAMPION ENTERPRISES, INC.

THREE AND NINE MONTHS ENDED SEPTEMBER 29, 2001  
VERSUS THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2000

## Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

### CONSOLIDATED

(Dollars in millions)

	Three Months Ended		
	Sept. 29, 2001	Sept. 30, 2000	% Change
Net sales			
Manufacturing	\$ 362.0	\$ 378.5	(4%)
Retail	119.6	148.6	(20%)
Less: intercompany	(54.0)	(61.0)	
	\$ 427.6	\$ 466.1	(8%)
	=====	=====	
Gross margin	\$ 77.5	\$ 75.7	2%
SG&A	67.5	75.4	(11%)
	\$ 10.0	\$ 0.3	
	=====	=====	
As a percent of sales			
Gross margin	18.1%	16.2%	
SG&A	15.8%	16.2%	
Operating income	2.3%	0.1%	

	Nine Months Ended		
	Sept. 29, 2001	Sept. 30, 2000	% Change
Net sales			
Manufacturing	\$ 973.7	\$1,253.5	(22%)
Retail	357.5	483.1	(26%)
Less: intercompany	(149.0)	(202.0)	
	\$1,182.2	\$1,534.6	(23%)
	=====	=====	
Gross margin	\$ 198.7	\$ 245.1	(19%)
SG&A	215.9	223.5	(3%)
	\$ (17.2)	\$ 21.6	
	=====	=====	
As a percent of sales			
Gross margin	16.8%	16.0%	
SG&A	18.3%	14.6%	
Operating income (loss)	(1.5%)	1.4%	

Consolidated revenues decreased for the quarter and year-to-date periods from the effects of challenging industry conditions, including tightened consumer credit standards and high consumer repossession levels. As a result of these conditions we are operating fewer manufacturing facilities and retail sales centers than a year ago. Since June 2000 we have closed and consolidated eight manufacturing facilities and 84 sales centers.

## Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

Gross margin dollars for the three months ended September 29, 2001 increased slightly despite the 8% decline in sales while gross margin as a percentage of

Page 10 of 18

sales increased to 18.1% from 16.2% versus the same quarter last year. The quarter's gross margin increased primarily due to reduced material costs both as a percentage of sales and in dollars. Gross margin dollars for the nine months then ended are \$46 million less than in 2000. The decrease in gross margin dollars for the year-to-date period is due to the \$352 million decline in consolidated net sales, partially offset by reduced material cost of sales and the net effect of the following items that occurred last year. Gross margin dollars for the nine months ended September 30, 2000 included a \$5 million charge for additional write down of the repurchased homes from the 1999 independent retailer bankruptcy and \$1.7 million of employee termination benefits paid related to closed homebuilding facilities, partially offset by a \$4 million reduction in the intercompany profit in inventory as a result of lower manufacturing margins and declining inventories at the retail segment.

Third quarter 2001 selling, general and administrative expenses ("SG&A") include a \$3.7 million charge for estimated losses on retail finance loans and costs to transition existing loans to alternative financing sources. The loan origination subsidiary has stopped originating new loans. SG&A for the three months ended September 30, 2000 included \$4 million for fixed asset impairment charges and \$0.7 million for lease termination and other costs. These charges are partially offset by a \$2.5 million gain from a property insurance settlement. The decrease in quarterly SG&A as a percentage of sales despite the items mentioned above is due to efficiencies obtained through operating fewer sales centers and the company's efforts to reduce fixed costs.

SG&A for the nine-month period ended September 29, 2001 decreased 3% versus the prior year. Lower SG&A in the current year from the reduction in sales and operating fewer manufacturing facilities and sales centers was partially offset by the \$3.7 million reserve for estimated loan losses and transition costs, \$6.5 million of fixed asset impairment charges and \$2.2 million of lease termination and other costs related to closing four homebuilding facilities and 30 retail sales centers. Prior year's SG&A included property insurance gain of \$6.9 million, partially offset by the \$4 million of fixed asset impairment charges and \$0.7 million of lease termination and other costs.

### MANUFACTURING OPERATIONS

	Three Months Ended		
	Sept. 29, 2001	Sept. 30, 2000	% Change
Net sales (in millions)	\$ 362.0	\$ 378.5	(4%)
EBITA (in millions)	\$ 25.9	\$ 14.7	76%
EBITA margin %	7.2%	3.9%	
Homes sold	10,941	12,393	(12%)
Floors sold	19,804	21,682	(9%)
Multi-section mix	77%	73%	
Average home price	\$31,700	\$ 29,200	9%

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

	Nine Months Ended		
	Sept. 29, 2001	Sept 30, 2000	% Change
Net sales (in millions)	\$ 973.7	\$1,253.5	(22%)
EBITA (in millions)	\$ 34.8	\$ 47.7	(27%)
EBITA margin %	3.6%	3.8%	
Homes sold	30,069	42,705	(30%)

Page 11 of 18

Floors sold	54,016	72,992	(26%)
Multi-section mix	76%	69%	
Average home price	\$31,100	\$ 28,100	11%
Manufacturing facilities at period end	49	55	(11%)

Manufacturing sales declined for the three and nine-month periods ended September 29, 2001, due to challenging market conditions. According to data reported by the National Conference of States on Building Codes and Standards, U.S. industry wholesale shipments for the first nine months of 2001 decreased 29% in homes and 27% in floors from a year earlier. Our average home wholesale price increased 9% versus the same quarter last year, primarily due to the increase in multi-section mix. Of our total wholesale shipments for the quarter, 85% were shipped to independent retailers and 15% were shipped to company-operated sales centers. Due to market conditions, we closed four manufacturing facilities this year.

Third quarter manufacturing EBITA increased 76% despite a 4% decline in sales versus the same period last year. Manufacturing EBITA for the third quarter 2001 was favorably affected by lower material costs and marketing expenses. Segment EBITA for the three months ended September 30, 2000 includes \$1.0 million of impairment charges for a closed homebuilding facility and a \$2.5 million gain from a property insurance settlement.

Segment EBITA declined \$13 million or 27% for the nine months ended September 29, 2001 versus the same period in 2000 primarily due to lower gross margin dollars from the 22% reduction in manufacturing sales, \$3.3 million of fixed asset impairment charges for the plant closings and the prior year \$6.9 million insurance settlement gain. These items are partially offset by reduced material costs in the current period. EBITA margins as a percentage of sales have declined for the same reasons mentioned above.

Although dealer orders can be cancelled at anytime without penalty, and unfilled orders are not necessarily an indication of future business, the Company's unfilled orders for wholesale housing at September 29, 2001 totaled approximately \$54 million, compared to \$15 million at December 30, 2000 and \$27 million a year ago.

RETAIL OPERATIONS

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

	Three Months Ended		
	Sept. 29, 2001	Sept. 30, 2000	% Change
Net sales (in millions)	\$ 119.6	\$ 148.6	(20%)
EBITA (loss) (in millions)	\$ (6.1)	\$ (3.4)	(78%)
EBITA margin %	(5.1%)	(2.3%)	
New homes sold	1,990	2,776	(28%)
Pre-owned homes sold	461	650	(29%)
Total homes sold	2,451	3,426	(28%)
% Champion-produced new homes sold	91%	77%	
New multi-section mix	73%	62%	
Average new home price	\$56,600	\$50,200	13%
Average number of new homes sold per sales center per month	2.9	3.3	(12%)

Page 12 of 18

	Nine Months Ended		
	Sept. 29, 2001	Sept. 30, 2000	% Change
Net sales (in millions)	\$ 357.5	\$ 483.1	(26%)
EBITA (loss) (in millions)	\$ (22.7)	\$ 6.1	(475%)
EBITA margin %	(6.4%)	1.3%	
New homes sold	5,997	9,267	(35%)
Pre-owned homes sold	1,503	2,269	(34%)
Total homes sold	7,500	11,536	(35%)
% Champion-produced new homes sold	87%	71%	
New multi-section mix	71%	60%	
Average new home price	\$56,000	\$49,000	14%
Average number of new homes sold per sales center per month	2.8	3.6	(22%)
Average number of new homes in inventory per sales center at period end	13	18	(28%)
Sales centers at period end	229	270	(15%)

Retail sales decreased for the three and nine-month periods ended September 29, 2001, primarily due to challenging industry conditions and a decline in the number of our company-owned sales centers. We operated 229 sales centers at quarter end compared to 270 one year ago. Based on data reported by Statistical Surveys, Inc., we believe that industry retail sales of new homes in the first eight months of 2001 dropped approximately 32% from prior year levels. Our average new home selling price increased by 13% versus the same quarter last year, primarily due to the sale of a greater proportion of higher-priced, multi-section homes.

## Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

Retail EBITA for the quarter ended September 29, 2001 declined \$2.7 million compared to the same quarter last year due to reduced gross margin from the \$29 million reduction in retail sales and the \$3.7 million charge for estimated losses on retail finance loans, partially offset by lower SG&A from lower sales and operating fewer sales centers. Segment EBITA for the quarter ended September 30, 2000 includes charges of \$2.2 million for closing and consolidating sales centers. Our company-owned stores have reduced the average number of new homes in inventory per sales center to 13 new homes at September 29, 2001 compared to 15 new homes last quarter and 18 new homes one year ago.

Year-to-date retail EBITA decreased by \$29 million compared to the same period a year ago. The decline in the segment margin is primarily due to the \$126 million reduction in sales, the \$3.7 million charge for estimated losses on retail finance loans and \$5.4 million of costs to close 30 sales centers. Additionally, reduced income from loan origination fees, insurance and other commissions as a result of lower sales volume impacted margins. EBITA results a year ago included charges of \$2.2 million for closing and consolidating sales centers.

### REPURCHASE OBLIGATIONS

The Company enters into repurchase agreements with lending institutions that provide wholesale floor plan financing to independent retailers. At September 29, 2001 the maximum contingent repurchase obligation was approximately \$310 million, without reduction for the resale value of the homes. For the nine

Page 13 of 18

months ended September 29, 2001, Champion paid \$18.5 million and incurred losses of \$3.5 million for the repurchase of 616 homes resulting from defaults by independent retail companies. In the same period last year, the Company paid \$13.1 million and incurred losses of \$3.7 million for the repurchase of 449 homes.

### LIQUIDITY AND CAPITAL RESOURCES

Cash balances totaled \$66 million at September 29, 2001. For the nine months ended September 29, 2001, \$65 million was provided by operations and \$18 million from the net proceeds of the preferred stock issuance as discussed below. Expenditures during 2001 included \$5 million for capital improvements, \$17 million for payments related to 1998 acquisitions, and \$3 million for investments in and advances to unconsolidated subsidiaries. Approximately \$46 million was used to reduce the Company's floor plan payable.

During 2001, accounts receivable and accounts payable increased due to seasonality and year end levels generally being low due to the holidays and vacations. Inventories and floor plan payable decreased during the nine month period ended September 29, 2001 due to continued efforts to reduce inventories throughout our retail organization in response to industry conditions.

The Company has a \$75 million revolving credit agreement, maturing in May 2003, with a group of banks. The agreement allows for letters of credit up to \$35 million. Availability under the credit agreement is limited to a borrowing base calculated based on qualifying assets. As of September 29, 2001, the calculated borrowing base was \$70 million. At the end of September 2001, there were \$35 million of letters of credit and no cash borrowings outstanding under the credit facility, resulting in loan availability of \$35 million. In September 2001 and October 2001 we amended our bank agreement to allow for more flexible financial performance covenants. We believe that we will be in compliance with these

## Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

covenants through the next twelve months.

In June 2001 we restructured the payment terms of a deferred purchase price liability totaling \$32 million that was originally scheduled for payment in cash in June 2002. In July 2001, \$6 million of the obligation was paid in cash. The remaining \$26 million is due quarterly, commencing October 2001, in installments of \$2 million without interest, and is payable, at our option, in cash or common stock. In October 2001, we paid the first quarterly installment by issuing 220,000 shares of Champion common stock. The terms do not require a payment in April 2002.

In July 2001 Champion issued a newly designated class of convertible preferred stock with a seven-year term and a 5% annual dividend, which is payable quarterly in either cash or common stock, at Champion's option. The preferred stock is convertible into common stock at a conversion price of \$15.93 per share during the first six months. Six months after issuance the conversion price will be adjusted to 120% of the common stock's market value, subject to a minimum of \$7.50 and a maximum of \$15.93 per share. Following 24 months of issuance, the preferred stock is redeemable by the investor in either cash or common stock at the Company's option. At the investor's option, an additional \$12 million of preferred stock can be purchased through March 2003 on similar terms. On September 28, 2001 Champion paid a dividend on the preferred stock by issuing 27,000 shares of Champion common stock.

Page 14 of 18

Champion plans to spend less than \$7 million in 2001 on capital expenditures. Borrowings under the bank credit facility may be necessary in the future for capital improvements and to meet seasonal working capital needs. The Company does not plan to pay cash dividends on its common stock in the near term.

Currently, there are five primary national floor plan lenders, which finance a substantial portion of floor plan borrowings of Company-owned and independent retailers. We finance most of the new home inventory at our Company-owned stores through borrowings from floor plan lenders.

Conseco Finance (Conseco) is our primary floor plan lender, with \$49 million of borrowings outstanding at the end of the quarter. In March 2001, we reached an agreement with Conseco to reduce our floor plan borrowings with them to targeted amounts of \$60 million by June 30, 2001 and \$40 million by September 30, 2001. In August 2001, the targeted amounts were modified to \$48 million by September 30, 2001 and \$40 million by December 24, 2001. Since June 2000 we have reduced our floor plan borrowings with Conseco by over \$70 million through inventory reductions and proceeds from new floor plan lines of credit with other financial institutions. We plan to reduce our floor plan borrowings with Conseco by obtaining additional financing from other lenders or using cash flows from operations.

The Company believes that its cash balances, cash flows from operations and availability under its bank line of credit facility and floor plan arrangements will be adequate to meet its anticipated financing needs, operating requirements and capital expenditures for the next twelve months. We are seeking alternative finance sources in order to further reduce our floor plan borrowings with Conseco. We may also seek additional sources of capital. However, there can be no assurance that we will be able to secure additional floor plan borrowings or additional capital. In the event the Company is required to further reduce its



## Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

total floor plan borrowings or the availability under its credit facility or operating cash flow is insufficient to finance its operations and alternative financing or capital is unavailable, there could be an adverse impact on our liquidity.

### FORWARD LOOKING STATEMENTS

Certain statements contained in this report, including the Company's plans, anticipated capital expenditures, new market initiatives, covenant compliance and the adequacy of cash to meet financing needs, could be construed as forward looking statements within the meaning of the Securities Exchange Act of 1934. In addition, Champion or persons acting on its behalf may from time to time publish or communicate other items which could also be construed to be forward looking statements. Statements of this sort are or will be based on the Company's estimates, assumptions and projections, and are subject to risks and uncertainties, including those contained in Champion's most recently filed Annual Report on Form 10-K, that could cause actual results to differ materially from those included in the forward looking statements.

If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those expected, estimated or projected. The Company does not undertake to update its forward looking statements or risk factors to reflect future events or circumstances.

Page 15 of 18

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

The Company's floor plan borrowings at September 29, 2001 were \$68 million and are subject to interest primarily based on the U.S. prime interest rate. A 100 basis point increase in the prime rate would result in additional annual interest cost of \$0.7 million, assuming average floor plan borrowings of \$68 million.

Page 16 of 18

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) The following exhibits are filed as part of this report:

Exhibit No. -----	Description -----
11	Statement Regarding Computation of Per Share Earnings.
(b)	On July 9, 2001; July 19, 2001; August 21, 2001; September 18, 2001 and October 17, 2001 Champion filed current reports on Form 8-K.

Page 17 of 18

SIGNATURES

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

CHAMPION ENTERPRISES, INC.

By: ANTHONY S. CLEBERG

-----  
Anthony S. Cleberg  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

And: RICHARD HEVELHORST

-----  
Richard Hevelhorst  
Vice President and Controller  
(Principal Accounting Officer)

Dated: November 9, 2001

Page 18 of 18

EXHIBIT INDEX

Exhibit No. -----	Description -----
11	Statement Regarding Computation of Per Share Earnings.