

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

CHAMPION ENTERPRISES INC

Form 10-Q

August 09, 2001

1

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 JUNE 30, 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

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

of common stock, as of the latest practicable date.

47,948,527 shares of the registrant's \$1.00 par value Common Stock were outstanding as of August 3, 2001.

Page 1 of 16

2

### 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 Six Months Ended	
	June 30, 2001	July 1, 2000	June 30, 2001	July 1, 2000
Net sales	\$428,202	\$533,211	\$ 754,514	\$1,068,520
Cost of sales	351,791	447,791	633,295	899,129
Gross margin	76,411	85,420	121,219	169,391
Selling, general and administrative expenses	68,839	73,254	148,402	148,055
Operating income (loss)	7,572	12,166	(27,183)	21,336
Interest expense, net	5,782	6,844	12,210	13,813
Income (loss) before income taxes	1,790	5,322	(39,393)	7,523
Income taxes (benefits)	1,300	2,500	(13,800)	3,400
Net income (loss)	\$ 490	\$ 2,822	\$ (25,593)	\$ 4,123
Basic earnings (loss) per share	\$ 0.01	\$ 0.06	\$ (0.54)	\$ 0.09
Weighted shares for basic EPS	47,847	47,255	47,672	47,251

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

Diluted earnings (loss) per share	\$ 0.01	\$ 0.06	\$ (0.54)	\$ 0.09
	=====	=====	=====	=====
Weighted shares for diluted EPS	49,508	47,337	47,672	47,346
	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

3

Page 2 of 16

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

	Unaudited June 30, 2001	December 30, 2000
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 35,892	\$ 50,143
Accounts receivable, trade	65,681	31,132
Inventories	182,231	217,765
Deferred taxes and other current assets	77,181	77,493
	-----	-----
Total current assets	360,985	376,533
	-----	-----
PROPERTY AND EQUIPMENT		
Cost	308,227	320,873
Less-accumulated depreciation	120,989	113,596
	-----	-----
	187,238	207,277
	-----	-----
GOODWILL		
Cost	320,590	320,656
Less-accumulated amortization	52,432	46,686
	-----	-----
	268,158	273,970
	-----	-----
DEFERRED TAXES AND OTHER ASSETS		
	79,999	84,276
	-----	-----
Total assets	\$ 896,380	\$ 942,056
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

CURRENT LIABILITIES		
Floor plan payable	\$ 85,074	\$ 114,198
Accounts payable	69,852	43,103
Accrued warranty obligations	47,081	49,304
Accrued volume rebates	39,489	45,552
Accrued compensation and payroll taxes	21,688	19,034
Other current liabilities	79,421	71,662
	-----	-----
Total current liabilities	342,605	342,853
	-----	-----
LONG-TERM LIABILITIES		
Long-term debt	225,286	225,634
Deferred portion of purchase price	20,000	39,157
Other long-term liabilities	35,843	37,603
	-----	-----
	281,129	302,394
	-----	-----
CONTINGENT LIABILITIES (Note 6)		
SHAREHOLDERS' EQUITY		
Preferred stock, no par value, 5,000 shares authorized, none issued	-	-
Common stock, \$1 par value, 120,000 shares authorized, 47,947 and 47,357 shares issued and outstanding, respectively	47,947	47,357
Capital in excess of par value	33,980	33,116
Retained earnings	192,057	217,650
Accumulated other comprehensive income	(1,338)	(1,314)
	-----	-----
Total shareholders' equity	272,646	296,809
	-----	-----
Total liabilities and shareholders' equity	\$ 896,380	\$ 942,056
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

Page 3 of 16

4

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

	Unaudited Six Months Ended	
	June 30, 2001	July 1, 2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (25,593)	\$ 4,123
	-----	-----
Adjustments to reconcile net income (loss) to net		

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

cash provided by operating activities:		
Depreciation and amortization	18,337	19,957
Fixed asset impairment charges	6,500	-
Increase/decrease		
Accounts receivable	(34,549)	(6,455)
Inventories	35,534	16,588
Accounts payable	26,749	17,806
Accrued liabilities	(1,672)	(6,682)
Net cash charges to independent retailer		
bankruptcy reserve	-	(4,126)
Other, net	3,097	(6,613)
	-----	-----
Total adjustments	53,996	30,475
	-----	-----
Net cash provided by operating activities	28,403	34,598
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deferred and contingent purchase price payments	(10,233)	(10,165)
Additions to property and equipment	(3,229)	(9,159)
Investments in and advances to		
unconsolidated subsidiaries	(1,819)	(552)
Proceeds on disposal of fixed assets	1,494	2,179
	-----	-----
Net cash used for investing activities	(13,787)	(17,697)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in floor plan payable, net	(29,124)	(7,833)
Repayment of long-term debt	(333)	(624)
Common stock issued, net	590	49
Common stock repurchased	-	(863)
	-----	-----
Net cash used for financing activities	(28,867)	(9,271)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,251)	7,630
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	50,143	12,847
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 35,892	\$ 20,477
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

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

### Notes to Consolidated Financial Statements

1. 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 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):

	June 30, 2001	December 30, 2000
	-----	-----
New and pre-owned manufactured homes	\$114,751	\$143,892
Raw materials and work-in-process	41,626	44,980
Other inventory	25,854	28,893
	-----	-----
	\$182,231	\$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):

	Six Months Ended	
	June 30, 2001	July 1, 2000
	-----	-----
Statutory U.S. tax rate	\$(13,800)	\$ 2,600
Change in rate resulting from:		
State taxes, net	(1,000)	200
Other	1,000	600
	-----	-----
Total provision (benefit)	\$(13,800)	\$ 3,400
	=====	=====
Effective tax rate	35%	45%
	=====	=====

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 facility may be increased to \$90 million upon a majority vote of the

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

bank group. 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. For the second quarter of 2001, the calculated borrowing base averaged \$73 million and the June 2001 calculated borrowing base was \$75 million. As of June 30 2001, the Company had no cash borrowings and \$35 million of letters of credit outstanding under the facility.

Page 5 of 16

6

5. Reconciliations of segment sales to consolidated sales and segment EBITA (earnings (loss) before interest, taxes, goodwill amortization and general corporate expenses) to consolidated operating income (loss) follow (in thousands):

	Three Months Ended	
	June 30, 2001	July 1, 2000
Net sales		
Manufacturing	\$ 351,199	\$ 439,277
Retail	129,403	166,934
Less: intercompany	(52,400)	(73,000)
	\$ 428,202	\$ 533,211
	\$ 428,202	\$ 533,211
Operating income		
Manufacturing EBITA	\$ 19,372	\$ 19,917
Retail EBITA (loss)	(1,817)	4,225
General corporate expenses	(7,101)	(6,999)
Intercompany profit elimination	-	3,500
Loss from independent retailer bankruptcy	-	(5,000)
Goodwill amortization	(2,882)	(3,477)
	\$ 7,572	\$ 12,166
	\$ 7,572	\$ 12,166
	Six Months Ended	
	June 30, 2001	July 1, 2000
Net sales		
Manufacturing	\$ 611,709	\$ 875,079
Retail	237,805	334,441
Less: intercompany	(95,000)	(141,000)
	\$ 754,514	\$1,068,520
	\$ 754,514	\$1,068,520

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

Operating income (loss)		
Manufacturing EBITA	\$ 8,916	\$ 33,015
Retail EBITA (loss)	(16,655)	9,480
General corporate expenses	(13,683)	(12,753)
Intercompany profit elimination	-	3,500
Loss from independent retailer bankruptcy	-	(5,000)
Goodwill amortization	(5,761)	(6,906)
	-----	-----
Consolidated operating income (loss)	\$ (27,183)	\$ 21,336
	=====	=====

For the quarter ended June 30, 2001, manufacturing EBITA includes \$1.0 million of non-cash fixed asset impairment charges related to closed plants. For the six month period ended June 30, 2001, manufacturing EBITA includes \$3.3 million of non-cash fixed asset impairment charges related to closed plants, and retail EBITA (loss) includes \$3.2 million of non-cash fixed asset impairment charges and \$2.2 million of lease termination and other costs associated with closures of retail sales centers. In the three and six months ended July 1, 2000, manufacturing EBITA includes \$1.7 million of employee termination benefits paid upon the closure of three homebuilding facilities and a \$4.4 million gain from a property insurance settlement. Retail floor plan interest expense not charged to retail EBITA totaled \$2.2 million and \$4.9 million for the three and six months ended June 30, 2001 and \$3.2 million and \$6.6 million for the three and six months ended July 1, 2000, respectively.

Page 6 of 16

7

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 June 30, 2001 was \$320 million, without reduction for the resale value of the homes. This amount compares to \$430 million at the beginning of the year and \$560 million a year ago. Losses incurred upon the repurchase of homes totaled \$3.3 million for the six months ended June 30, 2001 and \$2.0 million for the same period a year ago.

At June 30, 2001 the Company was contingently obligated for 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 \$48 million under surety bonds as of June 30, 2001.



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

7. During the quarter ended June 30, 2001, Champion closed two homebuilding facilities, resulting in non-cash fixed asset impairment charges of \$1.0 million which were recorded in selling, general and administrative expenses. For the year-to-date period, non-cash fixed asset impairment charges and lease termination and other costs related to closed operations totaled \$9.7 million.
8. 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.
9. 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 in quarterly installments of \$2 million without interest, and is payable, at Champion's option, in cash or common stock. A payment is not due following the quarter ended March 2002.
10. Subsequent to quarter end, 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 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 to certain limitations. 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 over the next 21 months on similar terms.
11. In July 2001, the Financial Accounting Standards Board 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. During the third and fourth quarters of 2001, the Company will perform the transitional impairment tests required in order to determine each reporting unit's fair value, and thus the impact to the Company's financial statements. Champion will

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

adopt SFAS 142 in January 2002. The adoption of this pronouncement will eliminate goodwill amortization expense, which currently approximates \$0.18 per diluted share annually or \$0.045 per quarter.

Page 8 of 16

9

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

#### CHAMPION ENTERPRISES, INC.

THREE AND SIX MONTHS ENDED JUNE 30, 2001  
VERSUS THREE AND SIX MONTHS ENDED JULY 1, 2000

CONSOLIDATED  
(Dollars in millions)

	Three Months Ended		
	June 30, 2001	July 1, 2000	% Change
Net sales			
Manufacturing	\$ 351.2	\$ 439.3	(20%)
Retail	129.4	166.9	(22%)
Less: intercompany	(52.4)	(73.0)	
	\$ 428.2	\$ 533.2	(20%)
	=====	=====	
Gross margin	\$ 76.4	\$ 85.4	(11%)
SG&A	68.8	73.2	(6%)
	\$ 7.6	\$ 12.2	
	=====	=====	
As a percent of sales			
Gross margin	17.8%	16.0%	
SG&A	16.1%	13.7%	
Operating income	1.8%	2.3%	
	Six Months Ended		
	June 30, 2001	July 1, 2000	% Change
Net sales			
Manufacturing	\$ 611.7	\$ 875.1	(30%)
Retail	237.8	334.4	(29%)
Less: intercompany	(95.0)	(141.0)	
	\$ 754.5	\$1,068.5	(29%)
	=====	=====	

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

Gross margin	\$ 121.2	\$ 169.4	(28%)
SG&A	148.4	148.1	-
	-----	-----	
Operating income (loss)	\$ (27.2)	\$ 21.3	
	=====	=====	
As a percent of sales			
Gross margin	16.1%	15.9%	
SG&A	19.7%	13.9%	
Operating income (loss)	(3.6%)	2.0%	

Consolidated revenues decreased 20% for the quarter and 29% year-to-date. The effects of challenging industry conditions, including tightened consumer credit standards and high consumer repossession levels continue to impact net sales. As a result of these conditions we are operating fewer manufacturing facilities and retail sales centers than a year ago. During the past twelve months we have closed and consolidated eight manufacturing facilities and 83 sales centers.

Gross margin dollars for the three and six months ended June 30, 2001 were \$9 million and \$48 million less than in 2000, respectively. The decrease in gross margin dollars for the quarter is due to the \$105 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 three months ended July 1, 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

Page 9 of 16

10

upon the closure of three homebuilding facilities, partially offset by a \$3.5 million reduction in the intercompany profit in inventory as a result of lower manufacturing margins and declining inventories at the retail segment. Second quarter 2001 gross margin as a percent of sales improved versus the prior year primarily due to the prior year items mentioned above and current quarter lower material costs. The decrease in gross margin dollars for the six months is primarily due to the \$314 million decline in consolidated net sales partially offset by lower material costs in the current period and the second quarter 2000 items discussed above.

Second quarter 2001 selling, general and administrative expenses ("SG&A") include a \$1 million non-cash fixed asset impairment charge due to the closure of two manufacturing facilities, but are lower than in 2000 due to operating fewer homebuilding facilities and sales centers and the reduction in sales. SG&A for the three months ended July 1, 2000 were reduced by a \$4.4 million gain from a property insurance settlement. The increase in quarterly SG&A as a percentage of sales is also due to these items plus the impact of lower sales on fixed SG&A costs. SG&A for the six month period ended June 30, 2001 was comparable to the prior year. Lower SG&A in the current year from operating fewer manufacturing facilities and sales centers and the reduction in sales was offset by \$6.5 million of fixed asset impairment charges and \$2.2 million of lease termination and other costs related to the closing of four homebuilding facilities and 30 retail sales centers and the prior year gain of \$4.4 million.

MANUFACTURING OPERATIONS

Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

	Three Months Ended		
	June 30, 2001	July 1, 2000	% Change
Net sales (in millions)	\$ 351.2	\$ 439.3	(20%)
EBITA (in millions)	\$ 19.4	\$ 19.9	(3%)
EBITA margin %	5.5%	4.5%	
Homes sold	10,918	14,961	(27%)
Floors sold	19,516	25,609	(24%)
Multi-section mix	76%	69%	
Average home price	\$30,800	\$28,100	10%

	Six Months Ended		
	June 30, 2001	July 1, 2000	% Change
Net sales (in millions)	\$ 611.7	\$ 875.1	(30%)
EBITA (in millions)	\$ 8.9	\$ 33.0	(73%)
EBITA margin %	1.5%	3.8%	
Homes sold	19,128	30,312	(37%)
Floors sold	34,212	51,310	(33%)
Multi-section mix	76%	67%	
Average home price	\$30,700	\$27,600	11%
Manufacturing facilities at period end	49	57	(14%)

Manufacturing sales declined 20% and 30% for the three and six month periods ended June 30, 2001, respectively. Challenging market conditions continue to affect sales volume with Champion's wholesale homes and floors sold declining 36.9% and 33.3% this year versus the same period last year. According to data reported by the National Conference of States on Building Codes and Standards, U.S. industry wholesale shipments for the first half of 2001 decreased 34.7% in homes and 32.0% in floors from the comparable 2000 period. Our average home wholesale price increased 10% versus the same quarter last year, primarily due to the increase in multi-section mix. Of our total wholesale shipments for the quarter, 87% were to independent retailers and 13% were to company-operated sales centers. Due to market conditions, we closed two manufacturing facilities in this year's second quarter in addition to two facilities we closed in the first quarter.

Second quarter manufacturing EBITA declined only 3% despite a 20% decline in sales. Manufacturing EBITA for the second quarter 2001 was favorably affected by lower material costs, partially offset by a \$1 million fixed asset impairment charge from the closure of two manufacturing facilities. Segment EBITA for the three months ended July 1, 2000 includes \$1.7 million of employee termination

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

benefits paid upon the closure of three homebuilding facilities and a \$4.4 million gain from a property insurance settlement.

Segment EBITA has declined by \$24 million or 73% for the six months ended June 30, 2001 versus the same period in 2000 primarily due to lower gross margin dollars from the 30% reduction in manufacturing sales, \$3.3 million of fixed asset impairment charges for the closure of four homebuilding facilities and the prior year \$4.4 million insurance settlement gain. These items are partially offset by reduced material costs in the current period and the prior year \$1.7 million charge for employee termination costs. 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 June 30, 2001 totaled approximately \$43 million, compared to \$15 million at December 30, 2000 and \$28 million a year ago.

### RETAIL OPERATIONS

	Three Months Ended		
	June 30, 2001	July 1, 2000	% Change
Net sales (in millions)	\$ 129.4	\$ 166.9	(22%)
EBITA (loss) (in millions)	\$ (1.8)	\$ 4.2	(143%)
EBITA margin %	(1.4%)	2.5%	
New homes sold	2,183	3,176	(31%)
Pre-owned homes sold	529	713	(26%)
Total homes sold	2,712	3,889	(30%)
% Champion-produced new homes sold	86%	69%	
New multi-section mix	72%	61%	
Average new home price	\$ 55,900	\$ 49,700	12%
Average number of new homes sold per sales center per month	3.2	3.7	(14%)

	Six Months Ended		
	June 30, 2001	July 1, 2000	% Change
Net sales (in millions)	\$ 237.8	\$ 334.4	(29%)
EBITA (loss) (in millions)	\$ (16.7)	\$ 9.5	(276%)
EBITA margin %	(7.0%)	2.8%	
New homes sold	4,007	6,491	(38%)
Pre-owned homes sold	1,042	1,619	(36%)
Total homes sold	5,049	8,110	(38%)
% Champion-produced new homes sold	85%	69%	
New multi-section mix	71%	59%	
Average new home price	\$ 55,700	\$ 48,500	15%
Average number of new homes sold per sales center per month	2.8	3.8	(26%)
Average number of new homes in inventory per sales center at period end	15	18	(17%)

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

Sales centers at period end	230	291	(21%)
-----------------------------	-----	-----	-------

Retail sales decreased 22% and 29% for the three and six month periods ended June 30, 2001, respectively. The sales decline is primarily due to challenging industry conditions and a decline in the number of sales centers. We operated 230 sales centers at June 30, 2001 compared to 291 one year ago.

Page 11 of 16

12

Based on data reported by Statistical Surveys, Inc., we believe that industry retail sales of new homes in the first five months of 2001 dropped approximately 37% from prior year levels. Our average new home selling price increased by 12% versus the same quarter last year, primarily due to the sale of a greater proportion of higher-priced, multi-section homes.

Retail EBITA for the quarter ended June 30, 2001 declined \$6 million compared to the same quarter last year primarily due to reduced gross margin from the \$38 million reduction in retail sales. In addition, retail segment gross margin as a percentage of sales has decreased due to the Company's efforts to reduce inventory and sell older homes. Our company-owned stores have reduced the average number of new homes in inventory per sales center to 15 new homes at June 30, 2001 compared to 18 new homes last quarter and a year ago. Retail EBITA for the six months ended June 30, 2001 decreased by \$26 million compared to the same period a year ago. The decline in the segment margin is primarily due to the \$97 million reduction in sales 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.

### REPURCHASE OBLIGATIONS

The Company enters into repurchase agreements with lending institutions that provide wholesale floor plan financing to independent retailers. At June 30, 2001 the maximum contingent repurchase obligation was approximately \$320 million, without reduction for the resale value of the homes. For the six months ended June 30, 2001, Champion paid \$17.0 million and incurred losses of \$3.3 million for the repurchase of 562 homes resulting from defaults by independent retail companies. In the same period last year, the Company incurred losses of \$2.0 million and paid \$6.4 million for the repurchase of 220 homes.

### LIQUIDITY AND CAPITAL RESOURCES

Cash balances totaled \$36 million at June 30, 2001. For the six months ended June 30, 2001, cash provided by operations was \$28 million. Expenditures during 2001 included \$3 million for capital improvements, \$10 million for payments related to 1998 acquisitions, and \$2 million for investments in and advances to unconsolidated subsidiaries. Approximately \$29 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 six month period ended June 30, 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 facility may be increased to \$90 million upon a majority vote of the bank group. The agreement allows for letters of credit up to \$35 million. Availability under the credit agreement is limited to a

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

borrowing base calculated based on qualifying assets. For the second quarter of 2001, the calculated borrowing base averaged \$73 million and the June 2001 calculated borrowing base was \$75 million. At the end of June 2001, there were \$35 million of letters of credit and no cash borrowings outstanding under the credit facility, resulting in loan availability of \$40 million. Through June 2001, we were in compliance with the agreement's financial performance covenants and believe that we will be in compliance throughout 2001.

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

Page 12 of 16

13

cash. The remaining \$26 million is due in quarterly installments of \$2 million without interest, and is payable, at our option, in cash or common stock. A payment is not due following the quarter ended March 2002.

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 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 to certain limitations. 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 over the next 21 months on similar terms.

Champion plans to spend less than \$10 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 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 \$59 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 \$60 million by June 30, 2001 and \$40 million by September 30, 2001. Since June 2000 we have reduced our floor plan borrowings with Conseco by over \$60 million through inventory reductions and proceeds from new floor plan lines of credit with two other financial institutions. Additional reductions of Conseco floor plan borrowings will occur by reducing inventory, obtaining additional financing from other lenders and using cash from operations.

The Company believes that its cash balances, including the proceeds from the July 2001 preferred stock issuance, 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, 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.

Page 13 of 16

14

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.

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

The Company's floor plan borrowings at June 30, 2001 were \$85 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 \$0.9 million, assuming average floor plan borrowings of \$85 million.

Page 14 of 16

15

### PART II. OTHER INFORMATION

#### Item 4. Submission of Matters to a Vote of Security Holders.

On May 1, 2001 the registrant held its 2001 Annual Meeting of Shareholders at which the following matters were submitted to a vote of security holders with results as follows:

1. Election of Directors



Edgar Filing: CHAMPION ENTERPRISES INC - Form 10-Q

Nominee -----	Votes For -----	Votes Withheld -----
Robert W. Anestis	36,793,656	4,866,666
Selwyn Isakow	36,869,436	4,790,886
Brian D. Jellison	41,030,666	629,656
Ellen R. Levine	41,001,961	658,361
George R. Mrkonic	36,817,952	4,842,370
Carl L. Valdiserri	36,838,876	4,821,446
Walter R. Young	36,782,257	4,878,065

2. Proposal to Re-approve the Performance Goals Under the 1995 Stock Option and Incentive Plan

Votes for - 37,363,848  
 Votes against - 4,233,146  
 Votes withheld/abstentions - 63,328

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 April 18, 2001; May 16, 2001; June 19, 2001; July 9, 2001 and July 19, 2001 Champion filed current reports on Form 8-K.

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: /s/ 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: /s/ RICHARD HEVELHORST

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

Dated: August 9, 2001

Page 16 of 16

17

Exhibit Index

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