CHAMPION ENTERPRISES INC
Form 8-K
October 16, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): October 16, 2002

CHAMPION ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

| Michigan | 1-9751 | 38-2743168 |
|---|---|---|
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

2701 Cambridge Court, Suite 300
Auburn Hills, Michigan 48326

(Address of principal executive offices)

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

N/A

(Former name or former address, if changed since last report.)

Item 5. Other Events.

The Registrant issued the following press release on October 16, 2002. The format of the financial statements has been slightly modified from those included in the press release to comply with certain Securities and Exchange Commission rules.

CHAMPION ENTERPRISES, INC.
REPORTS THIRD QUARTER RESULTS

Auburn Hills, Mich., October 16, 2002--Champion Enterprises, Inc. (NYSE: CHB), the nation's leading housing manufacturer, today reported results for its third quarter ended September 28, 2002. For the quarter, Champion had total revenues of $374 million and a net loss of $38.9 million, or $0.80 per diluted share, in 2002, compared to $428 million of revenues and net income of $2.5 million, or $0.05 per diluted share, in 2001. For the nine months ended September 2002, the company reported revenues of $1.0 billion and a net loss of $250.1 million, or $5.15 per diluted share. For the nine months ended September 2001, Champion had net sales of $1.2 billion and a net loss of $23.1 million, or $0.49 per diluted share. Goodwill amortization expense for the three and nine months ended September 2001 was $2.2 million after tax ($0.04 per diluted share) and $6.6 million after tax ($0.14 per diluted share), respectively.

Excluding restructuring charges of $42.9 million ($30.4 million after tax or $0.62 per diluted share), the company had a net loss of $8.5 million, or $0.18 per diluted share, for the three months ended September 2002. These charges were to close 65 retail sales centers, close and consolidate seven manufacturing facilities and adjust certain development investments to fair market value. Closing-related expenses consisted of $33.4 million for non-cash asset impairment charges, $3.5 million for warranty costs, $2.1 million for severance costs, $1.8 million for lease termination costs and $2.1 million for miscellaneous expenses. In addition, the company recorded a pretax charge of $5.6 million ($0.08 per diluted share) to adjust its self-insurance reserves based on an actuarial study completed by an independent third party during the third quarter. For the year-to-date period of 2002, Champion had a net loss of $29.8 million, or $0.64 per diluted share, excluding closing-related expenses and the second quarter's gain on debt retirement and charges for goodwill impairments and deferred tax asset valuation allowance.

Chairman, President, and Chief Executive Officer, Walter R. Young, commented, "We're encouraged that our 116 ongoing retail stores were at breakeven this quarter. As we manage for cash, retail operations reduced inventories by 635 new homes, or 21% of the June 2002 balance. We're pleased that our manufacturing operations continued to be profitable excluding closing-related expenses. In addition, HomePride's growth continues at a controlled pace with high quality loans."

Operations

Manufacturing- For the quarter, wholesale revenues decreased 17% to $302 million from $362 million one year earlier. Manufacturing segment income was $14.1 million excluding $26.3 million of plant closing costs and $5.6 million of self-insurance reserves. Closing-related expenses consisted of $21.0 million for non-cash asset impairment charges, $3.5 million of additional warranty costs and $1.8 million for severance expenses. The segment reported income of $25.9 million in the third quarter of 2001.

For the nine months ended September, manufacturing had segment income of $25.8 million, excluding the $26.3 million of closing-related expenses and the insurance reserve adjustment, in 2002, compared to $38.1 million, excluding $3.3 million of impairment charges, in 2001. Champion had unfilled wholesale orders of $41 million at 39 plants this September, compared to $54 million at 49 plants a year earlier. On a per plant basis, unfilled orders were down 5% year-over-year, but up 86% from this year's second quarter. Losses related to independent retailer defaults in the first nine months dropped to $0.9 million in 2002 from $3.5 million in 2001.

Retail- For the quarter, retail revenues were $105 million, down 12% from a year ago, and the segment had a loss of $5.6 million excluding closing-related expenses. In the third quarter of 2001, retail operations had revenues of $120 million and reported a loss of $6.1 million. Third quarter same store sales were flat from a year ago, while the average number of new homes sold per sales location increased 17% due to the closing of under performing retail locations.

Since the beginning of the year the company has closed 102 retail locations. Pretax charges to close retail locations totaled $14.0 million in this year's third quarter, consisting of $11.3 million for non-cash asset impairment charges, $1.8 million for lease termination costs and $0.9 million for other closing expenses. For the nine-month period, pretax charges for retail closing-related expenses were $18.9 million, including $13.2 million of non-cash asset impairment charges, $3.0 million for lease termination costs and $2.7 million for other closing expenses.

Finance- HomePride Finance Corp. originated $22.7 million of loans for the quarter and $28.9 million year-to-date. The company received $17.9 million of proceeds for $23.6 million of loans placed in the warehouse facility.

Corporate- General corporate expenses for the quarter include $300,000 of severance costs and a $2.3 million restructuring charge related to development investments, of which $1.1 million was a non-cash asset impairment charge. Champion sold its interest in the SunChamp joint venture, which consisted of 11 leased communities, to Sun Communities as of October 1, 2002. With Sun's purchase of the joint venture's debt, both parties decided that it was in the best interest of all involved to sell to Sun. Champion will continue to sell homes in these properties.

Liquidity and Capital Structure

Champion ended the quarter with $92.4 million in unrestricted cash and $37.1 million in restricted cash primarily for letter of credit collateral. For the three-month period, the company generated $17.9 million in cash flow from operations, consisting primarily of new home inventory liquidations.

Total debt outstanding at September 28, 2002 was $354.4 million, excluding $17.9 million outstanding under the warehouse line. During the quarter the company amended its $150.0 million warehouse line that supports HomePride's operations and a $15.0 million floor plan facility to allow more flexible covenants. At the end of September, the company had $9.2 million outstanding on its $30.0 million of total available floor plan credit lines. The company is in compliance with all debt covenants. In October Champion entered into an agreement to provide an additional $13.1 million in letters of credit, which will be cash collateralized, to its largest surety bond provider. During the year-to-date period, $30.0 million in Senior Notes due 2009 were retired for $23.8 million, resulting in a gain of $0.07 per diluted share.

Industry View

Year-over-year industry wholesale shipments declined 7.9% in the first eight months of 2002 and 14.9% in July and August. For the year the company estimates industry wholesale shipments of 170,000 homes, down 12% from 2001 levels, and substantially below the peak of

373,000 in 1998. Champion estimates 2002 industry retail sales of 195,000 new homes, down 8% from 2001 levels. These estimates are based on industry new home inventory dropping by 25,000 homes this year. The company estimates that cash and land home/real estate mortgages now represent at least 60% of industry consumer funding.

Corporate Governance

The company also announced that its Board of Directors has formed a nominating committee. In addition, the Board of Directors has voted to rescind the 1996 Shareholders Rights Plan as of December 31, 2002.

Outlook

Young concluded, "As we enter the seasonally slow fourth and first quarters, we will continue to evaluate all locations so that we maximize profitability and liquidity. Our actions in the third quarter better position us for the months ahead, but we still expect to report losses for the next two quarters. While we continue to focus on liquidity and cash flow during this period, we are positioning the company for the industry's eventual upturn with the actions we are taking to work through this remaining down cycle."

Champion Enterprises, Inc., headquartered in Auburn Hills, Michigan, is the industry's leading manufacturer and has produced nearly 1.6 million homes since the company was founded. The company operates 37 homebuilding facilities in 16 states and two Canadian provinces and 116 retail locations in 24 states. Independent retailers, including 636 Champion Home Center locations, and approximately 600 builders and developers also sell Champion-built homes. The company also provides financing for retail purchasers of its homes. Further information can be found at the company's website.

This news release contains certain statements, including statements regarding industry forecasts and other trends and the company's future plans, results, earnings and prospects, which could be construed to be forward looking statements within the meaning of the Securities and Exchange Act of 1934. These statements reflect the company's views with respect to future plans, events and financial performance. The company does not undertake any obligation to update the information contained herein, which speaks only as of the date of this press release. The company has identified certain risk factors which could cause actual results and plans to differ substantially from those included in the forward looking statements. These factors are discussed in the company's most recently filed Form 10-K and other SEC filings, and those discussions regarding risk factors are incorporated herein by reference.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL SUMMARY
(Dollars and weighted shares in thousands, except per share amounts)

| | Three Months Ended | | | |
|---|---|---|---|---|
| | Sept. 28, 2002 | Sept. 29, 2001 | % Chg. | Sept. 200 |
| Revenues: | | | | |
| Manufacturing net sales | $ 302,052 | $ 362,005 | (17%) | $ |
| Retail net sales | 105,356 | 119,637 | (12%) | |
| Financial services revenues | 495 | - | | |

| | | | | |
|---|---|---|---|---|
| Less: intercompany | (33,818) | (54,000) | | ( |
| Total revenues | 374,085 | 427,642 | (13%) | 1, |
| Cost of sales (2) | 329,342 | 350,175 | (6%) | |
| Gross margin | 44,743 | 77,467 | (42%) | |
| Selling, general and administrative expenses | 57,448 | 67,461 | (15%) | |
| Financial services operating costs | 3,473 | - | | |
| Goodwill impairment charges (1) | - | - | | |
| Closing-related expenses (2) | | | | |
| Asset impairment charges | 25,600 | - | | |
| Other closing costs | 6,000 | - | | |
| Gain on debt retirement (3) | - | - | | |
| Operating income (loss) (4) | (47,778) | 10,006 | | ( |
| Interest expense, net | 7,257 | 5,190 | | |
| Income (loss) before income taxes | (55,035) | 4,816 | | ( |
| Income taxes (benefits) (5) | (16,100) | 2,300 | | |
| Net income (loss) | (38,935) | 2,516 | | ( |
| Less: dividend on preferred stock | 562 | 250 | | |
| Income (loss) available to common shareholders | $ (39,497) | $ 2,266 | | $ ( |
| Basic earnings (loss) per share | $ (0.80) | $ 0.05 | | $ |
| Weighted shares for basic EPS | 49,154 | 47,957 | | |
| Diluted earnings (loss) per share | $ (0.80) | $ 0.05 | | $ |
| Weighted shares for diluted EPS | 49,154 | 50,942 | | |

See accompanying Notes to Financial Information.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
OTHER STATISTICAL INFORMATION

| | Three Months Ended | | | N |
|---|---|---|---|---|
| | Sept. 28, 2002 | Sept. 29, 2001 | % Chg. | Sept 20 |
| MANUFACTURING | | | | |
| Homes sold | 8,411 | 10,941 | (23%) | |
| Less: intercompany | 945 | 1,608 | (41%) | |
| Homes sold to independent retailers/builders | 7,466 | 9,333 | (20%) | |
| Total floors sold | 15,629 | 19,804 | (21%) | |
| Floors sold per average plant | 368 | 404 | (9%) | |
| Multi-section mix | 82% | 77% | | |
| Average home price | $ 34,600 | $ 31,700 | 9% | $ |
| Manufacturing facilities at period end | 39 | 49 | (20%) | |
| RETAIL | | | | |
| Homes sold | | | | |
| New homes | 1,648 | 1,990 | (17%) | |
| Pre-owned homes | 410 | 461 | (11%) | |
| Total homes sold | 2,058 | 2,451 | (16%) | |
| % Champion-produced new homes sold | 96% | 91% | | |
| New multi-section mix | 82% | 73% | | |
| Average new home price | $ 60,100 | $ 56,600 | 6% | $ |
| Average number of new homes sold per sales center per quarter | 10.2 | 8.7 | 17% | |
| Average number of new homes in inventory per sales center at period end | 20 | 13 | 54% | |
| Sales centers at period end | 116 | 229 | (49%) | |
| CONSOLIDATED (in thousands) | | | | |
| Contingent repurchase obligations | $245,000 | $310,000 | (21%) | $2 |
| Champion-produced field inventories | $520,000 | $670,000 | (22%) | $5 |
| Shares issued and outstanding | 49,150 | 47,990 | 2% | |
| Depreciation expense | $ 5,084 | $ 5,952 | (15%) | $ |

See accompanying Notes to Financial Information.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

| ASSETS | Sept. 28, 2002 | June 29, 2002 | Dec. 2 2001 |
|---|---|---|---|
| Cash and cash equivalents | $ 92,356 | $ 85,636 | $ 6 |
| Restricted cash | 18,613 | 17,777 | |
| Accounts receivable, trade | 48,172 | 49,436 | 2 |
| Inventories | 146,386 | 171,457 | 17 |
| Deferred taxes and other assets | 61,891 | 46,423 | 7 |
| Total current assets | 367,418 | 370,729 | 34 |
| Loans receivable, net | 28,282 | 6,145 | |
| Property and equipment, net | 135,910 | 164,567 | 17 |
| Goodwill, net | 165,940 | 165,964 | 25 |
| Restricted cash | 18,443 | 18,443 | |
| Deferred taxes and other assets | 24,240 | 26,190 | 7 |
| | $ 740,233 | $ 752,038 | $ 85 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
|---|---|---|---|
| Floor plan payable | $ 9,180 | $ 10,745 | $ 7 |
| Warehouse line borrowing | 17,903 | 2,103 | |
| Accounts payable | 58,589 | 67,312 | 4 |
| Other accrued liabilities | 192,834 | 173,687 | 17 |
| Total current liabilities | 278,506 | 253,847 | 29 |
| Long-term debt | 344,734 | 344,867 | 22 |
| Other long-term liabilities | 46,867 | 45,291 | 4 |
| Convertible preferred stock | 44,108 | 43,959 | 2 |
| Shareholders' equity | 26,018 | 64,074 | 27 |
| | $ 740,233 | $ 752,038 | $ 85 |

See accompanying Notes to Financial Information.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL INFORMATION

(1) During the quarter ended June 29, 2002, the company recorded retail goodwill impairment charges totaling $97.0 million ($70.5 million after tax or $1.44 per diluted share).

(2) A reconciliation of closing-related expenses and the number of retail locations and manufacturing facilities closed or consolidated follows (dollars in thousands):

| Closing-related expenses: | Three Months Ended Sept. 28, 2002 | Sept. 29, 2001 | Sep 2 |
|---|---|---|---|
| Cost of sales | $ 11,300 | $ - | $ |
| Selling, general and administrative expenses | 31,600 | - | |
| | $ 42,900 | $ - | $ |
| Operations closed or consolidated: | | | |
| Retail sales centers | 65 | 1 | |
| Manufacturing facilities | 7 | - | |

(3) During the quarter ended June 29, 2002, the company repurchased $30 million of its Senior Notes due 2009 for $23.8 million. As a result, a pretax gain of $5.9 million ($3.6 million after tax or $0.07 per diluted share) was recorded.

(4) Manufacturing and retail EBITA consists of earnings (loss) before interest, taxes and goodwill amortization, and includes asset impairment charges and other costs related to closed or consolidated operations. Finance EBITA includes interest income earned on loans receivable. A reconciliation of operating income (loss) follows (dollars in thousands):

| Three months ended: | Sept. 28, 2002 | % of Related Sales | Sep 2 |
|---|---|---|---|
| Manufacturing EBITA (loss) | $ (17,789) | -5.9% | $ |
| Retail EBITA (loss) | (19,571) | -18.6% | |
| Finance EBITA (loss) | (2,978) | | |
| General corporate expenses | (9,770) | | |
| Intercompany profit elimination | 2,330 | | |
| Goodwill amortization | - | | |
| Operating income (loss) | $ (47,778) | -12.8% | $ |

| Nine months ended: | Sept. 28, 2002 | % of Related Sales | Sep 2 |
|---|---|---|---|
| Manufacturing EBITA (loss) | $ (6,060) | -0.7% | $ |
| Retail EBITA (loss) | (41,451) | -14.7% | |
| Finance EBITA (loss) | (4,905) | | |
| Gain on debt retirement | 5,870 | | |
| General corporate expenses | (23,835) | | |
| Goodwill impairment charges | (97,000) | | |
| Intercompany profit elimination | 2,330 | | |
| Goodwill amortization | - | | |

| | | | |
|---|---|---|---|
| Operating loss | $ (165,051) | -15.8% | $ |

(5) The company provided a 100% valuation allowance for its deferred tax assets in the quarter ended June 2002. Tax benefits recorded for the remainder of the year will be for estimated tax losses which can be carried back for refunds. The company will not record any tax benefits for financial losses that are not tax losses in 2002. The effective tax rate for the quarter ended September 2002 differs from the 35% federal statutory rate due to estimated temporary differences that will not be deductible this year. Any differences between these current estimates and actual values will affect the fourth quarter 2002 tax rate. The effective tax rate for the nine months ended September 2002 differs from the federal statutory rate due to estimates of changes in temporary differences, non-deductible goodwill impairment charges and the deferred tax asset valuation allowance. For the three and nine months ended September 2001, the difference between the federal statutory rate and the effective tax rate is due to state income taxes and non-deductible items, primarily goodwill amortization.

SIGNATURES

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

CHAMPION ENTERPRISES, INC.

/s/ Anthony S. Cleberg

Anthony S. Cleberg,
Executive Vice President and
Chief Financial Officer

Date: October 16, 2002