CHAMPION ENTERPRISES INC
Form 10-Q
May 13, 2002

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark one)

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

For Quarter Ended March 30, 2002

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.

48,722,001 shares of the registrant s $1.00 par value Common Stock were outstanding as of May 4, 2002.

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	
	March 30, 2002	**March 31, 2001**
Net sales	$ 306,377	$ 326,312
Cost of sales	261,868	281,504
Gross margin	44,509	44,808
Selling, general and administrative expenses	58,238	79,563
Operating loss	(13,729)	(34,755)
Interest income	618	577
Interest expense	(5,435)	(7,005)
Loss before income taxes	(18,546)	(41,183)
Income tax benefits	(6,700)	(15,100)
Net loss	$ (11,846)	$ (26,083)
Basic and diluted loss per share	$ (0.25)	$ (0.55)
Weighted shares for basic and diluted EPS	48,506	47,496

See accompanying Notes to Consolidated Financial Statements.

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

	Unaudited March 30, 2002	December 29, 2001
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 25,280	$ 69,456
Accounts receivable, trade	42,472	27,507
Inventories	174,339	172,276
Deferred taxes and other current assets	90,204	76,385
Total current assets	332,295	345,624
PROPERTY AND EQUIPMENT		
Cost	308,883	307,741
Less-accumulated depreciation	136,047	130,311
	172,836	177,430
GOODWILL		
Cost	317,221	317,224
Less-accumulated amortization	58,257	58,257
	258,964	258,967
DEFERRED TAXES AND OTHER ASSETS	76,603	76,131
Total assets	$ 840,698	$ 858,152
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Floor plan payable	$ 63,713	$ 70,919
Accounts payable	59,648	47,559
Accrued warranty obligations	41,358	42,540
Accrued volume rebates	33,915	39,426
Accrued compensation and payroll taxes	16,625	22,639
Accrued insurance	21,705	19,089
Other current liabilities	50,527	50,342
Total current liabilities	287,491	292,514
LONG-TERM LIABILITIES		
Long-term debt	224,858	224,926
Deferred portion of purchase price	14,000	18,000
Other long-term liabilities	31,697	30,678
	270,555	273,604
CONTINGENT LIABILITIES (Note 5)		
REDEEMABLE CONVERTIBLE PREFERRED STOCK,		

No par value, 5,000 shares authorized, 20 issued	20,000	20,000
SHAREHOLDERS EQUITY		
Common stock, $1 par value, 120,000 authorized, 48,706 and 48,320 shares issued and outstanding, respectively	48,706	48,320
Capital in excess of par value	38,755	36,423
Retained earnings	177,166	189,262
Accumulated other comprehensive income (loss)	(1,975)	(1,971)
Total shareholders equity	262,652	272,034
Total liabilities and shareholders equity	$ 840,698	$ 858,152

See accompanying Notes to Consolidated Financial Statements.

CHAMPION ENTERPRISES, INC.

Consolidated Statements of Cash Flows

(In thousands)

	Unaudited Three Months Ended	
	March 30, 2002	**March 31, 2001**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (11,846)	$ (26,083)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	5,859	9,336
Fixed asset impairment charges		5,500
Increase/decrease		
Accounts receivable	(14,965)	(19,447)
Inventories	(2,063)	6,158
Accounts payable	12,089	19,485
Accrued liabilities	(8,292)	2,148
Other, net	(12,526)	(11,470)
Total adjustments	(19,898)	11,710
Net cash used for operating activities	(31,744)	(14,373)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	(3,950)	(8,233)
Additions to property and equipment	(1,474)	(1,416)
Investments in and advances to unconsolidated subsidiaries	(691)	(914)
Proceeds on disposal of fixed assets	214	
Net cash used for investing activities	(5,901)	(10,563)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in notes payable to bank, net		5,000
Decrease in floor plan payable, net	(7,206)	(11,275)
Repayment of long-term debt	(208)	(131)
Common stock issued, net	883	228
Net cash used for financing activities	(6,531)	(6,178)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(44,176)	(31,114)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	69,456	50,143
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 25,280	$ 19,029

See accompanying Notes to Consolidated Financial Statements.

CHAMPION ENTERPRISES, INC.

Notes to Consolidated Financial Statements
(Unaudited)

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 29, 2001 was derived from audited financial statements. Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments.

2. A summary of inventories by component follows (in thousands):

	March 30, 2002	December 29, 2001
New and pre-owned manufactured homes	$ 107,640	$ 107,877
Raw materials and work-in-process	42,310	40,337
Other inventory	24,389	24,062
	$ 174,339	$ 172,276

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

	Three Months Ended	
	March 30, 2002	March 31, 2001
Statutory U.S. tax rate	$ (6,500)	$ (14,400)
Change in rate resulting from		
State taxes, net of federal benefit	(500)	(1,200)
Nondeductible goodwill amortization		400
Other	300	100
Total income tax benefit	$ (6,700)	$ (15,100)
Effective tax rate	36%	37%

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

	Three Months Ended	
	March 30, 2002	March 31, 2001
Net sales		
Manufacturing	$ 266,652	$ 260,510
Retail	80,125	108,402
Less: intercompany	(40,400)	(42,600)

Consolidated net sales	$ 306,377	$ 326,312

Operating income (loss)		
Manufacturing EBITA (loss)	$ 1,303	$ (10,456)
Retail EBITA (loss)	(8,078)	(14,838)
General corporate expenses	(6,954)	(6,582)
Goodwill amortization		(2,879)
Consolidated operating loss	$ (13,729)	$ (34,755)

For the quarter ended March 31, 2001, manufacturing EBITA (loss) includes $2.3 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. Retail floor plan interest expense not charged to retail EBITA (loss) totaled $1.4 million and $2.7 million for the three months ended March 30, 2002 and March 31, 2001, respectively.

5. 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 contingent repurchase obligation at March 30, 2002 was $310 million, without reduction for the resale value of the homes. This amount compares to $300 million at the beginning of the year and $360 million a year ago. Repurchase losses incurred totaled $0.3 million for the quarter ended March 30, 2002 and $2.0 million for the quarter ended March 31, 2001.

   At March 30, 2002 the Company was contingently obligated for additional purchase price of up to $54 million related to its 1999 and 1998 acquisitions. Management currently believes that none of this contingent purchase price will require payment.

   At March 30, 2002, Champion was contingently obligated for approximately $35 million under letters of credit and $42 million under surety bonds, generally to support insurance, industrial revenue bond financing, and license and service bonding requirements. The $35 million of letters of credit and $21 million of the surety bonds support insurance reserves and long-term debt that are reflected as liabilities in the Company s consolidated balance sheet. As of May 10, 2002, the Company had fully cash collateralized its letters of credit and $9.6 million of cash collateral had been paid for the surety bonds.

   At March 30, 2002 certain of the Company s subsidiaries were guarantors of $9.4 million of debt of unconsolidated subsidiaries.

6. On March 29, 2002 the Company entered into an agreement to issue $25 million of Series C cumulative convertible preferred stock and a warrant which is exercisable on a net basis and is initially exercisable based on approximately 1.1 million shares of common stock at a purchase price of $12.04 per share. The Series C preferred stock has a seven year term and

a 5% annual dividend which is payable quarterly, at the Company s option, in cash or common stock. The initial conversion price is $9.63 per share. On June 29, 2003, the conversion price will be adjusted to 115% of the common stock s then market value (subject to certain limitations), provided that such conversion price shall not be greater than $10.83 per share or less than $5.66 per share. Commencing March 29, 2004, this preferred stock is redeemable by the holder for common stock, and, at the Company s option, partially for cash. The private placement of these securities was completed in April, 2002. Through June 24, 2002, the holder may purchase an additional $10 million of Series C preferred stock. The net proceeds of this issuance of $23.9 million were used for general corporate purposes, including the funding of $17.5 million cash collateral for the letters of credit that were arranged in April 2002.

The rights and preferences of the Company s Series B-1 cumulative convertible preferred stock, which was issued in July 2001 and of which $20 million is outstanding, were amended in April 2002 to provide, among other things, for mandatory redemption on March 29, 2004. Such redemption may be made for either common stock or cash, at the Company s option. Additionally, the commencement date of the holder s optional redemption period for the Series B-1 preferred stock was changed to April 2, 2002, from July 2003, and the expiration date of the holder s rights to purchase an additional $12 million of Series B preferred stock was extended to December 31, 2004 from March 2003. Optional redemptions may be made only for common stock.

7. The numerators used in the Company s basic earnings per share (EPS) calculations consist of net income (loss) as reported in the financial statements less the effect of preferred stock dividends. The numerator for diluted EPS calculations is the numerator of basic EPS adjusted by adding back the preferred stock dividend. In loss periods the dividend is not added back because the effect would be antidilutive. The denominators used in the Company s EPS calculations are as follows: weighted average shares outstanding are used in calculating basic EPS; and weighted average shares outstanding plus the effect of dilutive securities are used in calculating diluted EPS. The Company s dilutive securities consist of its outstanding stock options and its convertible preferred stock. Dilutive securities were not considered in determining the denominator for diluted EPS in either period presented because the effect on the net loss would be antidilutive. A reconciliation of the numerators and calculations of basic and diluted EPS follows (in thousands except per share amounts):

	Three Months Ended	
	March 30, 2002	**March 31, 2001**
Numerator:		
Net loss	$ (11,846)	$ (26,083)
Less: preferred stock dividend	250	
Loss available to common shareholders	$ (12,096)	$ (26,083)
Denominator:		
Weighted average shares outstanding	48,506	47,496
Basic and diluted loss per share	$ (0.25)	$ (0.55)

8. In addition to the issuance of $25 million of preferred stock, subsequent to quarter end, through May 10, 2002, the following transactions were completed:

The Company s revolving credit agreement for a $75 million secured line of credit was terminated by the Company. At the end of March 2002 the Company had no cash borrowings and $35 million of letters of credit outstanding under the facility. The Company arranged to have certain banks provide $35 million of letters of credit on a fully cash collateralized basis. In April 2002, $17.5 million of the cash collateral was paid and the balance was paid in May 2002.

A subsidiary of the Company issued $150 million of Senior Notes due 2007 with interest payable semi-annually at an annual rate of 11.25%. The net proceeds of approximately $144 million from the offering was and will be used to provide working capital for the Company s existing business segments and the Company s new consumer financing business, to finance the acquisition of the manufactured housing loan origination business of CIT Group/Sales Financing, Inc. (CIT), to repay a portion of the Company s debt, including a significant portion of the Company s floor plan payable, and for general corporate purposes. The Notes contain covenants which, among other things, limit the Company s ability to incur additional indebtedness, issue additional redeemable preferred stock, pay dividends on or repurchase common stock, make certain investments and incur liens on assets. Substantially all of the Company s wholly-owned subsidiaries, other than the issuer of the Senior Notes due 2007, are guarantors and the Company is a subordinated guarantor of the Senior Notes due 2007. The Senior Notes due 2007 are effectively senior to the Senior Notes due 2009.

The Company completed the acquisition of the manufactured housing loan origination business of CIT for approximately $5 million.

The Company arranged a $150 million warehouse facility to support the finance company s future operations. The warehouse facility has a term of one year and contains covenants that require the maintenance of minimum interest coverage ratios, minimum tangible net worth and minimum ratings from two of the national ratings agencies. Interest on borrowings under the warehouse facility will be at LIBOR plus 80 basis points and there is a facility fee which is payable monthly based on an annual rate of 40 basis points of the entire facility.

The Company purchased and retired $30 million of its Senior Notes due 2009 for $23.8 million, resulting in an extraordinary gain of $5.9 million pretax or $3.6 million after tax.

In May 2002, the Company repaid approximately $50 million of its floor plan borrowings.

9. During the quarter ended March 30, 2002, the Company idled two manufacturing facilities and closed four retail sales centers without incurring any significant costs. During the quarter ended March 31, 2001, Champion closed two homebuilding facilities and 30 retail sales centers and recorded charges totaling $7.7 million in selling, general and administrative expenses for fixed asset impairment charges and lease termination and other costs.

10. During the quarter ended March 30, 2002, the Company made payments of $250,000 for a quarterly dividend on its preferred stock, and $2 million related to a deferred purchase price payment, by issuing 28,000 shares and 157,000 shares, respectively, of its common stock.

11. In June 2001 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounti