CHAMPION ENTERPRISES INC
Form 8-K
July 17, 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): July 17, 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 July 17, 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 SECOND QUARTER RESULTS

Auburn Hills, Mich., July 17, 2002--Champion Enterprises, Inc. (NYSE: CHB), the nation's leading housing manufacturer, today reported results for its second quarter ended June 29, 2002. For the three-month period, Champion had net sales of $362 million and a net loss of $9.4 million, or $0.20 per diluted share, excluding gains of $0.07 per diluted share for debt retirement and charges of $0.06 per diluted share to close 33 retail sales centers. During the quarter a Texas homebuilding facility was consolidated. In the first six months of 2002, the company reported net sales of $668 million and a net loss of $21.2 million, or $0.45 per diluted share, excluding the gain on debt retirement and closing-related expenses.

In the comparable quarter a year ago, the company reported net sales of $428 million and net income of $1.1 million, or $0.02 per diluted share, excluding costs to close two homebuilding facilities. In the first six months of 2001, Champion's net sales were $755 million, which resulted in a loss of $20.2 million, or $0.43 per diluted share, before closing-related costs. These expenses were $0.01 per diluted share for the quarter and $0.11 per diluted share for the year-to-date period. Pretax goodwill amortization expense for the three and six months ended June 30, 2001 was $2.9 million ($2.2 million after tax or $0.04 per diluted share) and $5.8 million ($4.4 million after tax or $0.09 per diluted share), respectively.

Chairman, President, and Chief Executive Officer, Walter R. Young, commented, "Our results are disappointing as we thought the industry and Champion would be in a growth mode by now. Unfortunately, the industry continues to be affected by retail consumer financing issues. Industry repossessions also remain high and the transition to real estate loans is taking longer than originally estimated."

Operations

Manufacturing- For the three-month period, wholesale revenues decreased 11% to $314 million from $351 million one year earlier. Segment income was $10.4 million compared to $20.4 million, which excludes $1 million of impairment charges, in the second quarter of 2001. For the six-month period, the manufacturing segment reported $580 million in revenues, which resulted in segment income of $11.7 million. Champion had unfilled wholesale orders of $26 million at the end of this year's second quarter at 46 plants, compared to $43 million at 49 plants a year earlier.

Losses related to retailer defaults dropped to $500,000 in the first six months of 2002 from $3.3 million in the comparable period a year ago. The company said that the transition from Conseco floor plan lending is progressing smoothly for its independent retailers. Champion-produced homes at independent retailers that are financed by Conseco are down from $134 million in March of this year to $49 million today, with $19 million still under contingent repurchase obligations. The company believes that any potential losses related to these contingent repurchase obligations will not materially affect earnings.

Retail- Year-over-year retail revenues dropped 25% for the quarter and 26% for the six-month period. Excluding costs associated with closing retail locations, the segment reported a loss of $8.9 million for the second quarter of this year compared to a loss of $1.8 million a year earlier. In June 2002 the company closed 33 under performing retail locations, which had losses from operations totaling $2.1 million in the second quarter. Pretax charges of $4.9 million, including $1.9 million of non-cash impairment charges, were recorded as a result of these closings.

Finance- Following the April purchase of CIT's manufactured housing loan origination operations, Champion began originating retail consumer loans through its wholly owned subsidiary, HomePride Finance Corp. For the quarter, the company originated $6 million of loans and applied $2.4 million of these loans to its warehouse facility, resulting in $2.1 million of proceeds.

Liquidity and Capital Structure

Champion ended the quarter with $86 million in unrestricted cash, and $36 million in restricted cash for letter of credit collateral. Cash flow from operations was $13.5 million for the three-month period. Since the beginning of the year, the company has reduced its floor plan liability by $60 million and at the end of June had $11 million outstanding on its $30 million of total available floor plan credit lines. Excluding the gain on debt retirement, closing-related expenses and EBITDA losses at closed retail locations and the consolidated homebuilding facility, the company had EBITDA of $340,000 for the second quarter of 2002. On a comparable basis EBITDA was $19.3 million in the same quarter a year ago.

The company had $358 million of total debt outstanding at June 29, 2002. During the three-month period, $30 million in Senior Notes due 2009 were retired for $23.8 million, resulting in a gain of $0.07 per diluted share. In April 2002 Champion issued $25 million of convertible preferred stock and $150 million of Senior Notes due 2007 with an 11.25% annual interest rate. The company has also established a $150 million warehouse line to support HomePride's operations.

Industry View

In the first five months of 2002, year-over-year industry shipments declined 2.6%. For 2002 the company estimates industry wholesale shipments of 180,000 homes (previously 185,000), down 7% from 2001 levels, and industry retail sales of 195,000 new homes (previously 200,000), down 8% from 2001 levels. These estimates are based on industry new home inventory dropping by 15,000 homes this year. Champion estimates that industry repossessions will be 90,000 homes in 2002, which will be flat with 2001 levels, and begin to trend down next year to 80,000 repossessions (previously 70,000). The company estimates that cash and real estate mortgages now represent at least 60% of industry funding.

Outlook

"For this year's third quarter, we see relative improvement from second quarter results, but still expect to report a loss," Young continued. "Until the industry shows consistent year-over-year improvements, we intend to continue to manage the business for cash and to keep tight controls over inventory levels and working capital needs. We plan to keep capacity and inventories aligned with demand and will carefully monitor retail lot performance and make adjustments if necessary. This continuing assessment of business conditions and our outlook may also impact our valuation of retail goodwill and deferred tax assets.

"Because inventories at our independent retailers are generally in good shape, our wholesale order rates should respond quickly when industry retail sales improve. We are positioned to benefit from an industry upturn, with retail customer traffic levels holding steady, HomePride Finance operations growing and the strength of our Champion Home Center distribution network. In addition, we have our Genesis distribution, which shows a lot of long-term potential. However, it has not ramped up as quickly as we had hoped with sales increasing slightly from a year ago. We expect sales to builders and developers to be about 3,000 homes this year," concluded Young.

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 46 homebuilding facilities in 16 states and two Canadian provinces and 181 retail locations in 27 states. Independent retailers, including 604 Champion Home Center locations, and approximately 400 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, www.championhomes.net.

This news release contains certain statements, including statements regarding industry shipments, new retail sales, inventory reductions, repossession levels and other trends, the effect of Conseco's exit from floor plan lending on the company, growth opportunities and the company's future earnings and prospects, that 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			
	June 29, 2002	June 30, 2001	% Chg.	June 20
Net sales:				
Manufacturing	$ 313,699	$ 351,199	(11%)	$
Retail	96,607	129,403	(25%)	
Less: intercompany	(48,800)	(52,400)		
Total net sales	361,506	428,202	(16%)	
Cost of sales	301,300	351,791	(14%)	
Gross margin	60,206	76,411	(21%)	
Selling, general and administrative expenses	67,720	67,839		
Closing-related expenses (1)				
Fixed asset impairment charges	(1,900)	(1,000)		
Lease termination and other costs	(3,000)	-		
Gain on debt retirement (2)	5,870	-		
Operating income (loss) (3)	(6,544)	7,572		
Interest expense, net	7,047	5,782		

Income (loss) before income taxes	(13,591)	1,790	
Income taxes (benefits) (4)	(4,800)	1,300	
Net income (loss)	(8,791)	490	
Less: dividend on preferred stock	563	-	
Income (loss) available to common shareholders	$ (9,354)	$ 490	$
Basic earnings (loss) per share	$ (0.19)	$ 0.01	$
Weighted shares for basic EPS	48,729	47,847	
Diluted earnings (loss) per share	$ (0.19)	$ 0.01	$
Weighted shares for diluted EPS	48,729	49,508	

See accompanying Notes to Financial Information.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
OTHER STATISTICAL INFORMATION

	Three Months Ended			
	June 29, 2002	June 30, 2001	% Chg.	June 200
MANUFACTURING				
Homes sold	9,124	10,918	(16%)	16,8
Less: intercompany	1,329	1,408	(6%)	2,4
Homes sold to independent retailers/builders	7,795	9,510	(18%)	14,4
Floors sold	16,778	19,516	(14%)	31,2
Multi-section mix	80%	76%		8
Average home price	$ 33,000	$ 30,800	7%	$ 33,1
Manufacturing facilities at period end	46	49	(6%)	

RETAIL

Homes sold				
New homes	1,430	2,183	(34%)	2,6
Pre-owned homes	376	529	(29%)	7
Total homes sold	1,806	2,712	(33%)	3,3
% Champion-produced new homes sold	96%	86%		9
New multi-section mix	78%	72%		7
Average new home price	$ 62,600	$ 55,900	12%	$ 62,1
Average number of new homes in inventory per sales center at period end	16	15	7%	
Sales centers at period end	181	230	(21%)	1

CONSOLIDATED (in thousands)

Contingent repurchase obligations	$270,000	$320,000	(16%)	$270,0
Champion-produced field inventories	$600,000	$700,000	(14%)	$600,0
Shares issued and outstanding	48,822	47,947	2%	48,8
Depreciation expense	$ 5,704	$ 6,119	(7%)	$ 11,5

See accompanying Notes to Financial Information.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(In thousands)

ASSETS	June 29, 2002	March 30, 2002	Dec. 2 2001
Cash and cash equivalents	$ 85,636	$ 25,280	$
Restricted cash	36,220	-	
Accounts receivable, trade	49,436	42,472	
Inventories	171,457	174,339	1
Deferred taxes and other assets	84,223	90,204	
Total current assets	426,972	332,295	3
Loans receivable	6,145	-	
Property and equipment, net	164,567	172,836	1
Goodwill, net	262,964	258,964	2
Deferred taxes and other assets	81,890	76,603	
	$ 942,538	$ 840,698	$ 8

LIABILITIES AND SHAREHOLDERS' EQUITY

Floor plan payable	$ 10,745	$ 63,713	$
Warehouse line borrowing	2,103	-	
Accounts payable	67,312	59,648	
Other accrued liabilities	173,687	164,130	1
Total current liabilities	253,847	287,491	2
Long-term debt	344,867	224,858	2
Other long-term liabilities	45,291	45,697	
Convertible preferred stock	45,000	20,000	
Shareholders' equity	253,533	262,652	2
	$ 942,538	$ 840,698	$ 8

See accompanying Notes to Financial Information.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL INFORMATION

(1) Closing-related expenses are for the closing or consolidation of retail locations and homebuilding facilities. In the quarter ended June 29, 2002, 33 retail locations were closed and a manufacturing facility was consolidated. In the comparable quarter one year earlier, two manufacturing facilities were closed. In the six months ended June 30, 2001, 30 retail sales locations and four manufacturing facilities were closed or consolidated.

(2) 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.

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

Three months ended:	June 29, 2002	% of Related Sales	June 30, 2001
Manufacturing EBITA	$ 10,426	3.3%	$ 19,372
Retail EBITA (loss)	(13,802)	-14.3%	(1,817)
Finance EBITA (loss)	(1,927)		-
Gain on debt retirement	5,870		-
General corporate expenses	(7,111)		(7,101)
Goodwill amortization	-		(2,882)

Operating income (loss)	$ (6,544)	-1.8%	$ 7,572

Six months ended:	June 29, 2002	% of Related Sales	June 30, 2001
Manufacturing EBITA	$ 11,729	2.0%	$ 8,916
Retail EBITA (loss)	(21,880)	-12.4%	(16,655)
Finance EBITA (loss)	(1,927)		-
Gain on debt retirement	5,870		-
General corporate expenses	(14,065)		(13,683)
Goodwill amortization	-		(5,761)
Operating loss	$ (20,273)	-3.0%	$ (27,183)

(4) The difference between taxes at the 35% federal statutory rate and taxes provided is due to state income taxes and nondeductible items, primarily goodwill.

(5) A reconciliation of EBITDA follows (in thousands):

	Three Months Ended		Six Month
	June 29, 2002	June 30, 2001	June 29, 2002
Operating income (loss)	$ (6,544)	$ 7,572	$ (20,273)
Adjustments:			
Depreciation expense	5,704	6,119	11,563
Amortization expense	-	2,882	-
Closing-related expenses	4,900	1,000	4,900
EBITDA losses at closed operations	2,150	1,750	4,002
Gain on debt retirement	(5,870)	-	(5,870)
EBITDA	$ 340	$ 19,323	$ (5,678)

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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 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: July 17, 2002