CHAMPION ENTERPRISES INC
Form 10-Q
October 23, 2003

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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 Quarterly period ended September 27, 2003

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)

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 by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
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.

58,769,512 shares of the registrant s $1.00 par value Common Stock were outstanding as of October 17, 2003.

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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	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
Net sales	$310,934	$373,590	$849,384	$1,041,473
Cost of sales	271,117	329,342	728,044	892,510
Gross margin	39,817	44,248	121,340	148,963
Selling, general and administrative expenses	50,052	57,448	141,934	181,479
Goodwill impairment charges	34,183		34,183	97,000
Restructuring charges	20,100	31,600	20,100	36,500
Gain on debt retirement			(13,833)	(5,870)
Operating loss	(64,518)	(44,800)	(61,044)	(160,146)
Interest income	329	727	1,215	1,946
Interest expense	(6,783)	(7,695)	(20,713)	(20,777)
Loss from continuing operations before income taxes	(70,972)	(51,768)	(80,542)	(178,977)
Income tax expense (benefit)	450	(14,800)	(1,950)	67,900
Loss from continuing operations	(71,422)	(36,968)	(78,592)	(246,877)
Loss from discontinued operations, net of taxes	(9,674)	(1,967)	(20,902)	(3,195)
Net loss	$ (81,096)	$ (38,935)	$ (99,494)	$ (250,072)
Basic and diluted loss per share:				
Loss from continuing operations	$ (1.24)	$ (0.76)	$ (1.47)	$ (5.09)
Loss from discontinued operations	(0.17)	(0.04)	(0.37)	(0.06)
Basic and diluted loss per share	$ (1.41)	$ (0.80)	$ (1.84)	$ (5.15)
Weighted shares for basic and diluted EPS	57,498	49,154	56,260	48,796

See accompanying Notes to Consolidated Financial Statements.

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

	Unaudited September 27, 2003	December 28, 2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 144,796	$ 77,381
Restricted cash	522	32,450
Accounts receivable, trade	41,958	28,631
Inventories	110,944	111,332
Current assets of discontinued operations	1,650	2,015
Other current assets	15,072	88,959
Total current assets	314,942	340,768
PROPERTY, PLANT AND EQUIPMENT, at cost	230,961	256,838
Less-accumulated depreciation	131,797	129,709
	99,164	127,129
GOODWILL, net	126,501	161,336
OTHER NON-CURRENT ASSETS		
Restricted cash		18,443
Non-current assets of discontinued operations	70	57,498
Other non-current assets	21,693	22,917
Total other non-current assets	21,763	98,858
Total assets	$ 562,370	$ 728,091
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Floor plan payable	$ 14,842	$ 17,147
Accounts payable	42,902	37,053
Accrued warranty obligations	44,548	43,139
Accrued volume rebates	30,590	35,010
Accrued compensation and payroll taxes	20,984	17,118
Accrued self-insurance	30,139	28,772
Short-term liabilities of discontinued operations	4,047	36,764
Other current liabilities	55,533	48,141
Total current liabilities	243,585	263,144
LONG-TERM LIABILITIES		
Long-term debt	290,510	341,612
Other long-term liabilities	51,416	56,754
	341,926	398,366

CONTINGENT LIABILITIES (Note 11)		
REDEEMABLE CONVERTIBLE PREFERRED STOCK, no par value, 5,000 shares authorized, 8.75 shares and 30.0 shares issued and outstanding, respectively	8,629	29,256
SHAREHOLDERS EQUITY (DEFICIT)		
Common stock, $1 par value, 120,000 shares authorized, 58,400 and 52,658 shares issued and outstanding, respectively	58,400	52,658
Capital in excess of par value	82,248	54,666
Accumulated deficit	(171,751)	(68,150)
Accumulated other comprehensive income (loss)	(667)	(1,849)
Total shareholders equity (deficit)	(31,770)	37,325
Total liabilities, preferred stock and shareholders equity (deficit)	$ 562,370	$ 728,091

See accompanying Notes to Consolidated Financial Statements.

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

	Unaudited Nine Months Ended	
	September 27, 2003	September 28, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss from continuing operations	$ (78,592)	$ (246,877)
Adjustments to reconcile loss from continuing operations to net cash provided by (used for) operating activities:		
Depreciation and amortization	12,215	16,556
Gain on debt retirement	(13,833)	(5,870)
Goodwill impairment charges	34,183	97,000
Deferred income taxes		94,800
Fixed asset impairment charges, net of gains	15,347	26,622
Increase/decrease:		
Accounts receivable, trade	(13,327)	(20,665)
Refundable income taxes	60,920	(10,129)
Inventories	388	25,890
Cash collateral deposits	9,600	(13,392)
Accounts payable	5,849	10,828
Accrued liabilities	13,008	22,651
Other, net	11,088	4,034
Net cash provided by continuing operating activities	56,846	1,448
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Loss from discontinued operations	(20,902)	(3,195)
Decrease (increase) in net assets of discontinued operations	25,076	(16,222)
Net cash provided by (used for) discontinued operations	4,174	(19,417)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions and deferred purchase price payments	(3,882)	(3,500)
Additions to property, plant and equipment	(4,368)	(4,347)
Investments in and advances to unconsolidated subsidiaries	(446)	(2,084)
Proceeds on disposal of fixed assets	5,193	3,591
Net cash used for investing activities	(3,503)	(6,340)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in floor plan payable, net	(2,305)	(61,739)
Repayment of long-term debt	(480)	(738)
Proceeds from Senior Notes		145,821
Purchase of Senior Notes	(35,830)	(23,750)
Increase in deferred financing costs	(1,985)	(1,494)
Decrease (increase) in restricted cash	50,371	(35,701)
Preferred stock issued, net		23,810
Dividends paid on preferred stock	(937)	
Common stock issued, net	1,064	1,000
Net cash provided by financing activities	9,898	47,209

NET INCREASE IN CASH AND CASH EQUIVALENTS	67,415	22,900
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	77,381	69,456
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$144,796	$ 92,356

See accompanying Notes to Consolidated Financial Statements.

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CHAMPION ENTERPRISES, INC.

Consolidated Statement of Shareholders Equity (Deficit)
Unaudited Nine Months Ended September 27, 2003
(In thousands)

	Common stock		Capital in excess of	Accumulated	Accumulated other comprehensive income		Total comprehensive
	Shares	Amount	par value	deficit	(loss)	Total	income (loss)
Balance at December 28, 2002	52,658	$52,658	$54,666	$ (68,150)	$(1,849)	$ 37,325	
Net loss				(99,494)		(99,494)	$(99,494)
Preferred stock dividends				(619)		(619)	
Stock options and benefit plans	551	551	4,043			4,594	
Amortization of preferred stock issuance costs			(622)			(622)	
Preferred stock conversions	3,751	3,751	17,499			21,250	
Issuance for acquisition deferred purchase price payments	1,440	1,440	3,174			4,614	
Charge for induced conversion of preferred stock			3,488	(3,488)			
Foreign currency translation adjustments					1,182	1,182	1,182
Balance at September 27, 2003	58,400	$58,400	$82,248	$(171,751)	$ (667)	$(31,770)	$(98,312)

See accompanying Notes to Consolidated Financial Statements.

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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. All such adjustments are of a normal recurring nature except for the restructuring charges discussed in Note 2, the goodwill impairment charges discussed in Note 3 and the charge to retained earnings related to the induced conversion of the Series C Preferred Stock recorded in the first quarter 2003 and discussed in Note 10. 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 28, 2002 was derived from audited financial statements.

The Company exited its consumer finance business during the third quarter of 2003 and as a result reclassified that segment as discontinued operations for all periods presented.

For a description of significant accounting policies used by Champion Enterprises, Inc. (the Company) in the preparation of its consolidated financial statements, please refer to Note 1 of Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 28, 2002.

The Company accounts for its stock-based employee compensation programs under Accounting Principles Board (APB) Opinion No. 25. The additional disclosures and pro forma information required by Statement of Financial Accounting Standards (SFAS) No. 123 as amended by SFAS No. 148 follow. If compensation costs for the Company s stock-based compensation plans had been determined based on the fair value at the grant dates consistent with the requirements of SFAS No. 123, pro forma net loss, loss per share and stock-based compensation expense would have been the amounts indicated below:

	Three Months Ended	
	September 27, 2003	September 28, 2002
	(In thousands, except per share amounts)	
Net loss as reported	$ (81,096)	$ (38,935)
Net loss pro forma	(79,895)	(40,055)
Basic and diluted loss per share as reported	(1.41)	(0.80)
Basic and diluted loss per share pro forma	(1.39)	(0.83)
Stock-based employee compensation expense (income), net of related tax effects as reported	2,423	(311)
Stock-based employee compensation expense, net of related tax effects pro forma	$ 1,222	$ 809

	Nine Months Ended	
	September 27, 2003	September 28, 2002
	(In thousands, except per share amounts)	
Net loss as reported	$ (99,494)	$ (250,072)
Net loss pro forma	(99,497)	(252,493)
Basic and diluted loss per share as reported	(1.84)	(5.15)
Basic and diluted loss per share pro forma	(1.84)	(5.20)
Stock-based employee compensation expense, net of related tax effects as reported	2,696	6
Stock-based employee compensation expense, net of related tax effects pro forma	$ 2,699	$ 2,427

2. During the quarter ended September 27, 2003, the Company announced the closure of four manufacturing facilities, the relocation of one manufacturing facility and the closure of 35 retail sales centers and recorded $26.9 million of restructuring charges. During the quarter, the 35 retail sales centers ceased normal operations and 11 of those sales centers had been abandoned after the liquidation of inventory.

The remaining closures will be completed in the fourth quarter of 2003 as the inventory is liquidated and the sites are vacated. The four announced manufacturing closures ceased production in early October. The closure of the four facilities and relocation of one facility are expected to be substantially complete during the fourth quarter of 2003. In connection with these closures, the Company estimates additional

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restructuring charges totaling $2.3 million will be recorded in the fourth quarter of 2003, primarily comprised of lease termination and severance costs. All restructuring actions are expected to be substantially complete by the end of the fourth quarter of 2003.

For the year-to-date period, retail closures, including the 35 described above, total 38 or 32% of the sales centers the Company was operating at the beginning of 2003. For the year, manufacturing closures, including the four described above, total seven, or 19% of the manufacturing facilities operated at the beginning of the year.

During the quarter ended September 28, 2002, the Company closed 64 retail sales centers and seven manufacturing facilities and recorded $42.9 million of restructuring charges. During the nine months then ended, the Company closed 100 retail sales centers and ten manufacturing facilities. The 2002 restructuring charges also included $0.3 million of severance costs related to eliminating 19 employees from the corporate office staff and charges totaling $2.3 million related to the Company exiting its principal development operations.

Restructuring charges for the three and nine months ended September 27, 2003 and September 28, 2002 were as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
	(In thousands)			
Manufacturing charges:				
Fixed asset impairment charges	$ 15,100	$ 19,500	$ 15,100	$ 19,500
Inventory charges	1,000	1,500	1,000	1,500
Warranty costs	3,300	3,500	3,300	3,500
Severance costs	600	1,800	600	1,800
Other closing costs	600		600	
Total manufacturing charges	20,600	26,300	20,600	26,300
Retail charges:				
Fixed asset impairment charges	2,000	5,000	2,000	6,900
Inventory charges	4,600	6,300	4,600	6,300
Lease termination costs	200	1,800	200	3,000
Other closing costs	1,600	900	1,600	2,700
Total retail charges	8,400	14,000	8,400	18,900
Development charges:				
Severance costs		1,200		1,200
Asset impairment charges		1,100		1,100
Total development charges		2,300		2,300
Corporate office severance costs		300		300
Intercompany profit elimination	(2,100)		(2,100)	
Total restructuring charges	$ 26,900	$ 42,900	$ 26,900	$ 47,800

Restructuring charges incurred in 2003 were accounted for in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Restructuring charges incurred prior to 2003 were accounted for in accordance with Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).

Inventory charges, net of intercompany profit elimination, and warranty costs are included in cost of goods sold while fixed asset impairment charges, severance costs, lease termination charges and other closing costs are included in restructuring charges.

Fixed asset impairment charges for the announced manufacturing facility closures were primarily based on appraised values and the Company s estimates of net sales values. At September 27, 2003, the Company had 22 idle manufacturing facilities of which 13 were permanent closures and are for sale. A majority of the Company s idle manufacturing facilities are accounted for as long-lived assets to be held and used, including certain of those for sale, due to uncertainty of completing a sale within one year.

Manufacturing inventory charges are for obsolescence related to the consolidation of product lines and models as a result of the four plant closings and the one plant relocation announced in the quarter, as well as the elimination of stock keeping units. Additional warranty costs were provided for due to expected higher costs to service homes after the closure of plants in certain areas. Manufacturing severance costs are related to the termination of substantially all the employees at the four manufacturing facility closures announced in the quarter and include a portion of payments required under the Worker Adjustment and Retraining Notification Act and severance payments to qualifying salaried employees. Approximately 600 employees have been or will be terminated at these four facilities.

Retail fixed asset impairment charges were determined based on net book value at the 35 closed sales centers and result from the planned abandonment of leasehold improvements. Retail inventory charges represent estimated losses resulting from the bulk sale of certain new home inventory and estimated lower of cost or market charges for inventory of land, park spaces and improvements at closed sales centers. For purposes of reconciling 2003 restructuring charges by segment, a credit (income) of $2.1 million resulted from the reduction in intercompany profit in inventory associated with the bulk sale of new home inventory mentioned above. Retail lease termination charges consist of accruals for future lease payments, net of estimated sublease income or settlements, for the termination of leases at vacated sales centers. Approximately 170 retail employees have been or will be terminated as a result of these 35 sales center closings.

The following table summarizes the changes in accrued restructuring costs during the nine months ended September 27, 2003.

	Reserve balance at December 28, 2002	Charges recorded	Costs paid or settled	Adjustments	Reserve balance at September 27, 2003
			(In thousands)		
Manufacturing accruals:					
Warranty costs	$2,938	$3,300	$(1,293)	$2,100	$ 7,045
Severance costs		600			600
Other closing costs		600	(265)		335
Total manufacturing	2,938	4,500	(1,558)	2,100	7,980
Retail accruals:					
Lease termination costs	2,549	200	(1,125)	(114)	1,510
Other closing costs		1,600	(412)		1,188
Total retail	2,549	1,800	(1,537)	(114)	2,698
Total restructuring reserves	$5,487	$6,300	$(3,095)	$1,986	$10,678

During the third quarter of 2003, the Company accrued additional warranty costs of $2.1 million for estimated additional costs for prior closures of manufacturing facilities.

3. The change in the carrying amount of goodwill follows:

	Nine Months Ended September 27, 2003			
	Manufacturing	Retail	Other	Total
		(In thousands)		
Balance at December 28, 2002	$126,403	$ 34,439	$ 494	$161,336
Impairment charges		(34,183)		(34,183)
Other changes	98	(256)	(494)	(652)
Balance at September 27, 2003	$126,501	$	$	$126,501

In the third quarter of 2003, as a result of the significant downsizing of its operations in reaction to ongoing reductions in industry sales and in accordance with SFAS No. 142, the Company performed a test for retail and manufacturing goodwill impairment using the income approach. Under this method, the fair value of the reporting unit is determined based on the present value of estimated future cash flows that the reporting unit is expected to generate over its remaining life. In applying this method, the Company was required to make estimates of future operating trends and judgments about discount rates and other variables. Actual future results could differ from these estimates. In applying the income approach, it assumed a cash flow

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period of five years, a discount rate of 12%, and a terminal value of the fifth year s estimated future cash flows for the next five years. The results of this impairment test indicated that the implied fair value of the retail goodwill was less than its carrying value, resulting in a non-cash pretax impairment charge of $34.2 million, which was recorded in the quarter ended September 27, 2003.

The $0.5 million decrease in other goodwill during the nine months ended September 27, 2003 was due to the sale of land, land improvements and certain other assets of a development company during the first quarter of 2003.

In the second quarter of 2002, as a result of the closure of 64 retail sales centers, the Company performed a test for goodwill impairment similar to that described above. The results of this impairment test indicated that the implied fair value of the retail goodwill was less than its carrying value, resulting in a non-cash, pretax impairment charge of $97 million.

4. In the quarter ended September 27, 2003, the Company decided to exit the consumer finance business. The Company s financial services segment operated as HomePride Finance Corp. (HPFC). HPFC stopped accepting new loan applications on July 31, 2003 and processed approved applications through September 30, 2003. The loss from discontinued operations related to HPFC is summarized below:

	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
	(In thousands)			
Loss from operations	$(1,074)	$(1,967)	$(12,302)	$(3,195)
Loss on discontinuance	(8,600)		(8,600)	
Loss from discontinued operations	$(9,674)	$(1,967)	$(20,902)	$(3,195)

The loss on discontinuance included a goodwill impairment charge of $4.1 million as well as fixed asset impairment charges, severance costs and accruals for the estimated costs associated with the termination of operating leases and other contracts. Approximately 30 employees have been or will be terminated as a result of the discontinuance. Net revenues of the financial services business were $2.3 million for the nine months ended September 27, 2003 and $0.5 million for the nine months ended September 28, 2002. The loss from discontinued operations was net of income tax benefits of $1.3 million and $2.0 million for the three and nine months ended September 28, 2002, respectively.

At September 27, 2003, the current assets of the discontinued operations consisted of $1.1 million of loans receivable and $0.5 million of other assets. Non-current assets of discontinued operations consist primarily of fixed assets. The short-term liabilities of discontinued operations were primarily comprised of accrued severance costs and accrued contractual obligations.

During the quarter ended September 27, 2003, the Company sold loans receivable with a face value of $26.1 million for gross proceeds of approximately $24.3 million resulting in net cash of $14.3 million after reduction of associated short-term borrowings. During the nine months ended September 27, 2003, the Company sold loans with a face value of $85.8 million for gross proceeds of approximately $78.4 million, which was comparable to the carrying value of the loans, net of the lower of cost or market reserve. The sale of the loans provided net cash of $26.2 million after reduction of associated short-term borrowings. During the three and nine months ended September 27, 2003, the Company originated $7.9 million and $35.8 million of loans, respectively.

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5. The provisions for income taxes (benefits) differ from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax loss from continuing operations as a result of the following differences:

	Nine Months Ended	
	September 27, 2003	September 28, 2002
	(In thousands)	
Statutory U.S. tax rate	$(28,200)	$ (62,500)
Increase (decrease) in rate resulting from		
Deferred tax valuation allowance	25,200	122,900
State taxes, net of federal tax effect	250	(3,700)
Nondeductible goodwill amortization and impairment charges		10,300
Other	800	900
Total income tax provision (benefit)	$ (1,950)	$ 67,900

Beginning with the quarter ended June 29, 2002, the Company has provided a 100% valuation allowance for its deferred tax assets. Deferred tax assets will continue to require a 100% valuation allowance until the Company has demonstrated their realizability through sustained profitability and/or from other factors. Current federal income tax regulations provide for a two-year carryback of net operating losses. The Company has no taxable income available during this carryback period and, as a result, any net operating losses incurred in 2003 will become tax loss carryforwards that will be available to offset certain future taxable income. The effective tax rate for the nine months ended September 27, 2003 differs from the 35% federal statutory rate primarily because of this 100% valuation allowance for deferred taxes partially offset by a $3.0 million tax benefit for a reduction in the valuation allowance, as discussed below.

The amount of net deferred tax assets, the 100% valuation allowance and the expected tax refund related to the 2002 federal income tax return were estimated at December 28, 2002 based on year-end estimates of the tax deductibility of certain costs and charges. Upon completion and filing of the 2002 federal income tax return in April 2003, the Company received tax refunds totaling $63.5 million in the second quarter 2003. These refunds exceeded by approximately $3.0 million the estimate made as of December 28, 2002, resulting in a $3.0 million reduction of deferred tax assets which was recorded in the first quarter of 2003 through a reduction in the related valuation allowance.

6. A summary of inventories by component follows:

	September 27, 2003	December 28, 2002
	(In thousands)	
New manufactured homes	$ 53,892	$ 55,846
Raw materials	26,710	27,097
Work-in-process	6,665	6,557
Other inventory	23,677	21,832
	$110,944	$111,332

Other inventory consists of pre-owned manufactured homes, land and park spaces and improvements.

7. A summary of other current assets and other long-term liabilities by component follows:

	September 27, 2003	December 28, 2002
	(In thousands)	
Other current assets		

Refundable income taxes	$ 655	$ 61,100
Deposits	6,500	16,100
Other current assets	7,917	11,759
	$ 15,072	$ 88,959

	September 27, 2003	December 28, 2002
	(In thousands)	
Other long-term liabilities		
Accrued self-insurance and warranty	$23,200	$23,200
Deferred portion of purchase price	4,000	10,000
Other long-term liabilities	24,216	23,554
	$51,416	$56,754

Deposits consist of cash collateral deposited for surety bonds and insurance purposes.

8. The Company s manufacturing operations provide retail homebuyers with a twelve-month warranty from the date of purchase. Estimated warranty costs are accrued as cost of sales at the time of sale. The warranty provision and reserves are based on estimates of the amounts necessary to settle existing and future claims for homes sold by the manufacturing operations as of the balance sheet date. The following table summarizes the changes in accrued product warranty obligations during the nine months ended September 27, 2003. A portion of warranty reserves was classified as other long-term liabilities in the consolidated balance sheet.

	Accrued Warranty Obligations
	(In thousands)
Reserves at December 28, 2002	$ 49,639
Warranty expense provided	45,963
Cash warranty payments	(44,554)
Reserves at September 27, 2003	$ 51,048

9. Long-term debt by component consisted of the following:

	September 27, 2003	December 28, 2002
	(In thousands)	
7.625% Senior Notes due 2009	$134,450	$170,000
11.25% Senior Notes due 2007	135,010	150,000
Obligations under industrial revenue bonds	18,145	18,145
Other debt	2,905	3,467
	$290,510	$341,612

During the nine months ended September 27, 2003 the Company purchased and retired $35.5 million of the Senior Notes due 2009 and $15 million of the Senior Notes due 2007 for cash payments of $35.8 million, resulting in pretax gains totaling $13.8 million. During the nine months ended September 28, 2002, the Company purchased and retired $30 million of its Senior Notes due 2009 for cash payments of $23.8 million, resulting in a pretax gain of $5.9 million.

In January 2003, Champion Home Builders Co. (CHB), a wholly-owned subsidiary of the Company, entered into a three-year, $75 million revolving credit facility to be used in support of letters of credit and for general corporate purposes. Under this facility, letter of credit fees range from 2.5% to 3.5% annually on letters of credit issued and borrowings bear interest at either the prime interest rate plus up to 0.5% or the Eurodollar rate plus 2.5% to 3.5%. In addition, there is an annual fee of $0.1 million plus 0.375% of the unused portion of the facility. Availability under the credit facility is subject to a borrowing base calculated as percentages of eligible accounts receivable, inventory and fixed assets. The facility agreement contains certain financial covenants that require the Company, only in the event that its liquidity, as defined, falls below $35 million, to maintain certain levels of consolidated earnings before interest, taxes, depreciation, amortization, non-cash restructuring costs and gains from extinguishment of Senior Notes and certain ratios of earnings to fixed charges, as defined. Liquidity, as defined, consists of the majority of the Company s unrestricted cash and cash equivalents plus unused availability under the facility. Fixed charges, as defined, consist primarily of interest expense, capital expenditures, dividends paid in cash, required principal payments of debt and lease payments paid or accrued during the calculation period as well as cash losses under wholesale repurchase obligations. In addition, the facility contains covenants that limit the Company s ability to incur additional indebtedness and liens, sell assets and, if liquidity falls below $35 million, make certain investments, pay dividends and purchase or redeem its common stock. The line of credit is collateralized by accounts receivable, inventories, property, plant, and equipment, cash and other assets. As of September 27, 2003, facility availability was $67.4 million, letters of credit outstanding totaled $66.9 million, there were no borrowings outstanding and the Company s liquidity was $152.2 million, which was in excess of $35 million such that no financial covenants were in effect.

During the first quarter of 2003 substantially all of the former fully cash collateralized letters of credit were terminated, resulting in the release to the Company of restricted cash totaling $49.8 million. Additionally, $9.6 million of cash deposits were released to the Company upon replacing cash collateral for surety bonds with letters of credit under the new credit facility.

In April 2003, the Company completed an amendment and renewal of the $150 million warehouse facility that expired in April 2003 at a reduced size of $75 million. The warehouse facility was maintained for a consolidated third party special purpose entity to support the Company s consumer finance operations. In July 2003, borrowings under the warehouse facility were substantially repaid through proceeds from the sale of loans. As discussed in Note 4, in July the Company decided to exit the consumer finance business. As a result the warehouse facility was paid off and terminated during the third quarter of 2003.

The Company has two floor plan facilities with total availability of $21 million of which $15.9 million was outstanding at September 27, 2003. A $15 million floor plan financing facility contains a covenant requiring the maintenance of a minimum of $35 million of liquidity, as defined in the $75 million revolving credit facility, at each fiscal month end. In the event of non-compliance with this covenant, the lender could terminate the credit line and cause the debt to become immediately due and payable. As of September 27, 2003, the Company had approximately $13.2 million outstanding under this facility and was in compliance with the covenant.

10. At September 27, 2003 redeemable convertible preferred stock consisted of Series C with a carrying value of $8.6 million and a redemption value of $8.75 million. During the third quarter 2003, the preferred shareholder redeemed the remaining $5.0 million of Series B-1 preferred stock for 882,706 shares of the Company s common stock. The holder of the preferred stock has the right to purchase an additional $12 million of Series B-1 preferred stock until December 31, 2004. Both Series have a 5% annual dividend that is payable quarterly, at the Company s option, in cash or common stock. The Series C is carried net of issuance costs, which are being amortized by charges to paid-in-capital over a period of two years through April 2004.

The Series C preferred stock has a seven-year term expiring April 2, 2009. During the first quarter of 2003, the terms of the Series C preferred stock were amended to accelerate the modification of the conversion price to $5.66 and the preferred shareholder agreed to convert $16.25 million of the Series C cumulative convertible preferred stock by March 12, 2003. Upon conversion, 2.9 million shares of common stock were issued. This amendment to the preferred stock terms was accounted for as an induced conversion, resulting in a charge to retained earnings of $3.5 million during the first quarter of 2003.

In connection with the issuance of the Series C preferred stock in 2002, the Company issued to the preferred shareholder a warrant, which is currently exercisable based on approximately 2.2 million shares at a strike price of $10.77 per share. Annually, on April 2 of each year, the warrant strike price increases by $0.75 per share. The warrant expires on April 2, 2009 and is exercisable only on a non-cash, net basis, whereby the warrant holder would receive shares of common stock as payment for any net gain upon exercise. During the third quarter of 2003, as a result of the increase in the Company s common stock price, the Company recorded in SG&A a $2.5 million charge for the change in estimated fair value of this warrant.

11. As is customary in the manufactured housing industry, the majority of the Company s manufacturing sales to independent retailers are made pursuant to repurchase agreements with lending institutions that provide wholesale floor plan financing to the retailers. Pursuant to these agreements, for a period of up to 30 months from invoice date of the sale of the homes and upon default by the retailers 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 contingent repurchase obligation at September 27, 2003 was estimated to be approximately $250 million, without reduction for the resale value of the homes. This amount compares to approximately $240 million at the beginning of the year and approximately $250 million a year earlier. Losses under repurchase obligations are determined by the difference between the repurchase price and the estimated net proceeds from the resale of the homes. Repurchase losses incurred on homes repurchased totaled $0.2 million and $0.8 million for the three and nine months ended September 27, 2003, respectively,

and $0.4 million and $0.9 million for the three and nine months ended September 28, 2002, respectively. During the first quarter 2003, wholesale repurchase reserves were increased $3.2 million in connection with the extension of repurchase terms to 24 months for certain national lenders and for the negative effects of market conditions on the Company s largest independent retailer. During the second quarter of 2003, the Company agreed to extend both repurchase terms and the timing of required principal curtailment payments by this independent retailer to respective floor plan lenders resulting in a slightly higher repurchase exposure to the Company for a longer period of time.

At September 27, 2003 the Company was contingently obligated for approximately $67.2 million under letters of credit, primarily comprised of $14.1 million to support insurance reserves, $18.4 million to support long-term debt, $27.7 million to secure surety bonds and $5.0 million to support an independent floor plan facility. Champion was also contingently obligated for $35.3 million under surety bonds, generally to support insurance, and license and service bonding requirements. Approximately half of the letters of credit and $20.8 million of the surety bonds support insurance reserves and long-term debt that are reflected as liabilities in the consolidated balance sheet.

At September 27, 2003 certain of the Company s subsidiaries were guarantors of $5.6 million of debt of unconsolidated subsidiaries, none of which was reflected in the consolidated balance sheet. These guarantees are several or joint and several and are related to indebtedness of certain manufactured housing community developments which are collateralized by the properties being developed.

The Company has provided various representations, warranties and other standard indemnifications in the ordinary course of its business, in agreements to acquire and sell business assets and in financing arrangements. The Company is subject to various legal proceedings and claims which arise in the ordinary course of its business.

Management believes the ultimate liability with respect to these contingent obligations will not have a material effect on the Company s financial position, results of operations or cash flows.

12. The Company s potentially dilutive securities consist of outstanding stock options, deferred purchase price obligations, convertible preferred stock and warrants. Dilutive securities were not considered in determining the denominator for diluted earnings per share (EPS) in any period presented because the effect on the net loss would have been antidilutive. A reconciliation of the numerators and denominators used in the Company s basic and diluted EPS calculations follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
	(In thousands)			
Numerator				
Net loss	$(81,096)	$(38,935)	$ (99,494)	$(250,072)
Plus: loss from discontinued operations	9,674	1,967	20,902	3,195
Less: preferred stock dividend	(164)	(562)	(619)	(1,375)
Less: charge to retained earnings for induced conversion of preferred stock			(3,488)	
Loss from continuing operations available to common shareholders for basic and diluted EPS	(71,586)	(37,530)	(82,699)	(248,252)
Loss from discontinued operations available to common shareholders for basic and diluted EPS	(9,674)	(1,967)	(20,902)	(3,195)
Net loss available to common shareholders for basic and diluted EPS	$(81,260)	$(39,497)	$(103,601)	$(251,447)
Denominator				
Shares for basic and diluted EPS - weighted average shares outstanding	57,498	49,154	56,260	48,796

13. The Company evaluates the performance of its manufacturing and retail segments based on earnings (loss) before interest, income taxes and general corporate expenses (EBIT), excluding goodwill impairment charges. Reconciliations of segment sales to consolidated net sales and segment earnings (loss) to consolidated operating (income) loss follow:

	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
	(In thousands)			
Net sales				
Manufacturing	$260,997	$302,052	$733,261	$ 882,403
Retail	74,948	105,356	203,109	282,088
Less: Intercompany	(25,011)	(33,818)	(86,986)	(123,018)
Consolidated net sales	$310,934	$373,590	$849,384	$1,041,473
Operating income (loss)				
Manufacturing EBIT	$ (10,111)	$ (17,789)	$ (3,954)	$ (6,060)
Retail EBIT	(9,360)	(19,571)	(12,780)	(41,451)
General corporate expenses	(12,855)	(9,770)	(26,576)	(23,835)
Gain on debt retirement			13,833	5,870
Goodwill impairment charges	(34,183)		(34,183)	(97,000)
Intercompany eliminations	1,991	2,330	2,616	2,330
Operating loss	$ (64,518)	$ (44,800)	$ (61,044)	$ (160,146)

For the three and nine months ended September 27, 2003, manufacturing EBIT includes $20.6 million of charges for restructurings announced during the third quarter and $2.1 million of additional warranty expense for manufacturing facilities closed in prior years. Manufacturing EBIT for the nine months ended September 27, 2003 also includes a $3.2 million increase in wholesale repurchase reserves in connection with the extension of repurchase terms to 24 months for certain national lenders and for the negative effects of market conditions on our largest independent retailer. For the three and nine months ended September 28, 2002, manufacturing EBIT includes $26.3 million of restructuring charges and a $5.6 million adjustment to increase self-insurance reserves. See Note 2 for a description of the restructuring charges.

For the three and nine months ended September 27, 2003, retail EBIT includes $8.4 million of restructuring charges incurred for the closure of 35 retail sales centers. For the three and nine months ended September 28, 2002, retail EBIT includes $14.0 million and $18.9 million, respectively, of restructuring charges incurred for the closure of 64 and 100 retail sales centers, respectively. See Note 2 for a description of the restructuring charges. Retail floor plan interest expense not charged to retail EBIT totaled $0.2 million and $1.1 million for the three and nine months ended September 27, 2003, respectively and $0.1 million and $2.4 million for the three and nine months ended September 28, 2002, respectively.

In the third quarter of 2003, certain of the Company s executive officers terminated employment with the Company. These terminations resulted in severance and contract-related charges totaling $4.4 million, which are included in general corporate expenses. In addition, the $2.5 million charge relating to the change in estimated fair value of the Company s outstanding common stock warrant, for 2.2 million shares, is also included in general corporate expenses in the third quarter of 2003. For the three and nine months ended September 28, 2002, general corporate expenses include $2.3 million of charges related to exiting certain development operations and $0.3 million of severance costs for staff reductions at the Company s corporate office. See Note 3 for a discussion of goodwill impairment charges and Note 9 for a discussion of the gain on debt retirement.

14. Commencing July 2003, the Company engaged AlixPartners LLC, a consulting firm, whose Chairman, Albert A. Koch, currently serves as the Company s Chairman of the Board of Directors, President and Chief Executive Officer. During the third quarter of 2003, the Company recorded expenses of $1.3 million and paid fees of $0.8 million to the firm for services rendered, including the services of Mr. Koch. The firm has been engaged for various consulting projects, some of which are or were based on hourly fees and expenses and another for which fees are contingent upon results.

15. In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred rather than recognized at the date of an entity s commitment to an exit plan as previously required in accordance with Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an

Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 by the Company at the beginning of fiscal 2003 impacted the manner in which the Company reported certain restructuring activities, including lease termination costs, employee severance costs and other exit activities. These charges were generally recognized when the liability was incurred.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123, which provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, Statement No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption by the Company of SFAS No. 148 in the first quarter of 2003 impacted interim disclosure requirements and requires the Company to choose among alternative implementation methods if the Company were to adopt SFAS No. 123 and change to the fair value method of accounting for stock-based compensation.

16. Substantially all subsidiaries of CHB are guarantors and the Company is a subordinated guarantor of the Senior Notes due 2007. In addition, CHB is a guarantor and substantially all of its subsidiaries are guarantors of the Senior Notes due 2009 on a basis subordinated to their guarantees of the Senior Notes due 2007. The non-guarantor subsidiaries include the Company s foreign operations, its development companies and certain finance subsidiaries.

Separate financial statements for each guarantor subsidiary are not included in this filing because each guarantor subsidiary is wholly-owned and the guarantees are full and unconditional, as well as joint and several, for the Senior Notes due 2009 and for the Senior Notes due 2007. There were no significant restrictions on the ability of the parent company or any guarantor subsidiary to obtain funds from its subsidiaries by dividend or loan.

The following condensed consolidating financial information presents the financial position, results of operations and cash flows of (i) the Company (Parent) and CHB, as parents, as if they accounted for their subsidiaries on the equity method; (ii) the guarantor subsidiaries, and (iii) the non-guarantor subsidiaries.

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Three Months Ended September 27, 2003

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Net sales	$	$ 64,317	$260,723	$10,905	$ (25,011)	$310,934
Cost of sales		61,424	228,278	8,615	(27,200)	271,117
Gross margin		2,893	32,445	2,290	2,189	39,817
Selling, general and administrative expenses	2,500	19,729	26,195	1,430	198	50,052
Goodwill impairment charge			34,183			34,183
Restructuring charges		304	19,796			20,100
Operating income (loss)	(2,500)	(17,140)	(47,729)	860	1,991	(64,518)
Interest income	2,657	2,892	188	18	(5,426)	329
Interest expense	(2,657)	(3,893)	(5,658)	(1)	5,426	(6,783)
Income (loss) from continuing operations before income taxes	(2,500)	(18,141)	(53,199)	877	1,991	(70,972)
Income tax expense				450		450
Income (loss) from continuing operations	(2,500)	(18,141)	(53,199)	427	1,991	(71,422)
Loss from discontinued operations, net of taxes			(9,366)	(964)	656	(9,674)
Loss before equity in income (loss) of consolidated subsidiaries	(2,500)	(18,141)	(62,565)	(537)	2,647	(81,096)
Equity in income (loss) of consolidated subsidiaries	(81,243)	(63,102)			144,345	
Net loss	$(83,743)	$(81,243)	$ (62,565)	$ (537)	$146,992	$ (81,096)

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Nine Months Ended September 27, 2003

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Net sales	$	$ 174,252	$731,121	$ 30,997	$ (86,986)	$849,384
Cost of sales		158,682	634,398	24,764	(89,800)	728,044
Gross margin		15,570	96,723	6,233	2,814	121,340
Selling, general and administrative expenses	2,500	40,210	94,835	4,191	198	141,934
Goodwill impairment charges			34,183			34,183
Restructuring charges		304	19,796			20,100
Gain on debt retirement	(12,555)	(1,278)				(13,833)
Operating income (loss)	10,055	(23,666)	(52,091)	2,042	2,616	(61,044)
Interest income	8,543	8,836	1,099	116	(17,379)	1,215
Interest expense	(8,543)	(11,749)	(17,782)	(18)	17,379	(20,713)
Income (loss) from continuing operations before income taxes	10,055	(26,579)	(68,774)	2,140	2,616	(80,542)
Income tax expense (benefit)	403	(9,521)	7,423	(255)		(1,950)
Income (loss) from continuing operations	9,652	(17,058)	(76,197)	2,395	2,616	(78,592)
Loss from discontinued operations, net of taxes			(17,879)	(866)	(2,157)	(20,902)
Loss before equity in income (loss) of consolidated subsidiaries	9,652	(17,058)	(94,076)	1,529	459	(99,494)
Equity in income (loss) of consolidated subsidiaries	(109,605)	(92,547)			202,152	
Net income (loss)	$ (99,953)	$(109,605)	$ (94,076)	$ 1,529	$202,611	$ (99,494)

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Balance Sheet
As of September 27, 2003

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Assets						
Current assets						
Cash and cash equivalents	$	$ 132,859	$ (97)	$ 12,034	$	$ 144,796
Restricted cash		310	212			522
Accounts receivable, trade		10,238	37,194	2,426	(7,900)	41,958
Inventories		10,578	97,600	2,016	750	110,944
Current assets of discontinued operations			1,650			1,650
Other current assets		8,053	92,817	378	(86,176)	15,072
Total current assets		162,038	229,376	16,854	(93,326)	314,942
Property, plant and equipment, net		28,338	68,773	2,053		99,164
Goodwill, net			125,783	718		126,501
Investment in consolidated Subsidiaries	6,824	300,286	138,530	6,863	(452,503)	
Non-current assets of discontinued operations			70			70
Other non-current assets	1,358	9,067	2,436	8,832		21,693
	$ 8,182	$ 499,729	$ 564,968	$ 35,320	$ (545,829)	$ 562,370
Liabilities, Redeemable Convertible Preferred Stock and Shareholders Equity (Deficit)						
Current liabilities						
Floor plan payable	$	$	$ 14,813	$ 29	$	$ 14,842
Accounts payable		8,940	32,383	1,679	(100)	42,902
Accrued warranty obligations		11,135	32,696	717		44,548
Accrued volume rebates		9,278	19,703	1,709	(100)	30,590
Short-term liabilities of discontinued operations			4,052	(5)		4,047
Other current liabilities	4,019	136,047	51,390	1,276	(86,076)	106,656
Total current liabilities	4,019	165,400	155,037	5,405	(86,276)	243,585
Long-term liabilities						
Long-term debt	134,450	142,474	13,586			290,510
Other long-term liabilities	2,500	34,117	14,672	127		51,416
	136,950	176,591	28,258	127		341,926

Intercompany balances	(102,434)	(87,186)	520,655	2,432	(333,467)	
Redeemable convertible preferred stock	8,629					8,629
Shareholders equity (deficit)						
Common stock	58,400	1	59	4	(64)	58,400
Capital in excess of par value	82,248	613,336	279,753	30,427	(923,516)	82,248
Accumulated deficit	(179,630)	(368,413)	(418,794)	(2,408)	797,494	(171,751)
Accumulated other comprehensive income (loss)				(667)		(667)
Total shareholders equity (deficit)	(38,982)	244,924	(138,982)	27,356	(126,086)	(31,770)
	$ 8,182	$ 499,729	$ 564,968	$ 35,320	$(545,829)	$ 562,370

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 27, 2003

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Net cash provided by (used for) continuing operating activities	$ 10,172	$ 76,616	$ (33,923)	$ 3,165	$ 816	$ 56,846
Net cash provided by (used for) discontinued operating activities			(7,049)	11,079	144	4,174
Cash flows from investing activities:						
Acquisitions and deferred purchase price payments			(3,882)			(3,882)
Additions to property and equipment		(894)	(3,261)	(213)		(4,368)
Investments in and advances to unconsolidated subsidiaries				(446)		(446)
Investments in and advances to consolidated subsidiaries	12,300	(46,060)	48,773	(14,053)	(960)	
Proceeds on disposal of fixed assets		694	2,899	1,600		5,193
Net cash provided by (used for) investing activities	12,300	(46,260)	44,529	(13,112)	(960)	(3,503)
Cash flows from financing activities:						
Decrease in floor plan payable, net			(1,951)	(354)		(2,305)
Repayment of long-term debt		(83)	(328)	(69)		(480)
Purchase of Senior Notes	(22,599)	(13,231)				(35,830)
Increase in deferred financing costs		(1,985)				(1,985)
Decrease in restricted cash		49,174	538	659		50,371
Dividends paid on preferred stock	(937)					(937)
Common stock issued, net	1,064					1,064
Net cash provided by (used for) financing activities	(22,472)	33,875	(1,741)	236		9,898
Net increase in cash and cash equivalents		64,231	1,816	1,368		67,415
Cash and cash equivalents at beginning of period		68,628	(1,913)	10,666		77,381
Cash and cash equivalents at end of period	$	$ 132,859	$ (97)	$ 12,034	$	$ 144,796

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Three Months Ended September 28, 2002

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Net sales	$	$ 71,194	$326,064	$10,150	$(33,818)	$373,590
Cost of sales		70,457	287,021	7,983	(36,119)	329,342
Gross margin		737	39,043	2,167	2,301	44,248
Selling, general and administrative expenses		13,853	40,660	2,964	(29)	57,448
Restructuring charges		10,400	18,900	2,300		31,600
Operating loss		(23,516)	(20,517)	(3,097)	2,330	(44,800)
Interest income	3,290	2	231	62	(2,858)	727
Interest expense	(3,290)	(4,356)	(2,857)	(50)	2,858	(7,695)
Loss from continuing operations before income taxes		(27,870)	(23,143)	(3,085)	2,330	(51,768)
Income tax benefit		(7,995)	(5,745)	(1,060)		(14,800)
Loss from continuing operations		(19,875)	(17,398)	(2,025)	2,330	(36,968)
Loss from discontinued operations, net of taxes			(2,411)	(34)	478	(1,967)
Loss before equity in income (loss) of consolidated subsidiaries		(19,875)	(19,809)	(2,059)	2,808	(38,935)
Equity in income (loss) of consolidated subsidiaries	(41,743)	(21,868)			63,611	
Net loss	$(41,743)	$(41,743)	$ (19,809)	$ (2,059)	$ 66,419	$ (38,935)

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Nine Months Ended September 28, 2002

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Net sales	$	$ 211,039	$ 926,678	$ 26,774	$ (123,018)	$ 1,041,473
Cost of sales		192,432	803,797	21,600	(125,319)	892,510
Gross margin		18,607	122,881	5,174	2,301	148,963
Selling, general and administrative expenses		42,877	131,463	7,168	(29)	181,479
Goodwill impairment charges			97,000			97,000
Restructuring charges		10,400	23,800	2,300		36,500
Gain on debt retirement	(5,870)					(5,870)
Operating income (loss)	5,870	(34,670)	(129,382)	(4,294)	2,330	(160,146)
Interest income	10,483	2	1,063	267	(9,869)	1,946
Interest expense	(10,483)	(7,557)	(12,441)	(165)	9,869	(20,777)
Income (loss) from continuing operations before income taxes	5,870	(42,225)	(140,760)	(4,192)	2,330	(178,977)
Income tax expense (benefit)	2,230	(528)	64,158	2,040		67,900
Income (loss) from continuing operations	3,640	(41,697)	(204,918)	(6,232)	2,330	(246,877)
Loss from discontinued operations, net of taxes			(3,639)	(34)	478	(3,195)
Income (loss) before equity in income (loss) of consolidated subsidiaries	3,640	(41,697)	(208,557)	(6,266)	2,808	(250,072)
Equity in income (loss) of consolidated subsidiaries	(256,520)	(208,176)			464,696	
Net loss	$ (252,880)	$ (249,873)	$ (208,557)	$ (6,266)	$ 467,504	$ (250,072)

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Balance Sheet
As of December 28, 2002

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Assets						
Current assets						
Cash and cash equivalents	$	$ 68,628	$ (1,913)	$ 10,666	$	$ 77,381
Restricted cash		31,041	750	659		32,450
Accounts receivable, trade		8,802	26,280	749	(7,200)	28,631
Inventories		10,677	100,028	2,377	(1,750)	111,332
Current assets of discontinued operations			345	1,670		2,015
Other current assets		80,742	87,407	1,197	(80,387)	88,959
Total current assets		199,890	212,897	17,318	(89,337)	340,768
Property, plant and equipment, net		30,435	93,696	2,998		127,129
Goodwill, net			160,223	1,113		161,336
Investment in consolidated subsidiaries	131,970	405,726	108,593	8,364	(654,653)	
Restricted cash		18,443				18,443
Non-current assets of discontinued operations, net			8,749	46,448	2,301	57,498
Other non-current assets	1,949	9,435	2,621	8,912		22,917
	$133,919	$ 663,929	$ 586,779	$ 85,153	$(741,689)	$728,091
Liabilities, Redeemable Convertible Preferred Stock and Shareholders Equity (Deficit)						
Current liabilities						
Floor plan payable	$	$	$ 16,764	$ 383	$	$ 17,147
Accounts payable		8,529	27,230	1,394	(100)	37,053
Accrued warranty obligations		6,172	36,406	561		43,139
Accrued volume rebates		10,328	23,449	1,333	(100)	35,010
Short-term liabilities of discontinued operations			596	36,168		36,764
Other current liabilities	2,102	119,420	50,295	2,501	(80,287)	94,031
Total current liabilities	2,102	144,449	154,740	42,340	(80,487)	263,144
Long-term liabilities						
Long-term debt	170,000	157,547	13,996	69		341,612
Other long-term liabilities		35,637	21,003	114		56,754
	170,000	193,184	34,999	183		398,366
Intercompany balances	(99,193)	(28,233)	462,564	609	(335,747)	
Redeemable convertible preferred stock	29,256					29,256
Shareholders equity (deficit)						
Common stock	52,658	1	60	3	(64)	52,658
Capital in excess of par value	54,666	613,336	259,134	47,804	(920,274)	54,666

Accumulated deficit	(75,570)	(258,808)	(324,718)	(3,937)	594,883	(68,150)
Accumulated other comprehensive income (loss)				(1,849)		(1,849)
Total shareholders equity (deficit)	31,754	354,529	(65,524)	42,021	(325,455)	37,325
	$133,919	$ 663,929	$ 586,779	$ 85,153	$(741,689)	$728,091

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 28, 2002

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Net cash provided by (used for) continuing operating activities	$ (4,188)	$ (6,106)	$ 8,784	$ 2,480	$ 478	$ 1,448
Net cash used for discontinued operating activities			(12,997)	(5,942)	(478)	(19,417)
Cash flows from investing activities:						
Acquisitions and deferred purchase price payments			(3,500)			(3,500)
Additions to property and equipment		(489)	(3,722)	(136)		(4,347)
Investments in and advances to unconsolidated subsidiaries				(2,084)		(2,084)
Investments in and advances to consolidated subsidiaries	(57,183)	(22,093)	69,975	9,301		
Proceeds on disposal of fixed assets			3,591			3,591
Net cash provided by (used for) investing activities	(57,183)	(22,582)	66,344	7,081		(6,340)
Cash flows from financing activities:						
Increase (decrease) in floor plan payable, net			(61,875)	136		(61,739)
Repayment of long-term debt		(50)	(684)	(4)		(738)
Proceeds from Senior Notes		145,821				145,821
Purchase of Senior Notes	(23,750)					(23,750)
Increase in deferred financing costs		(1,494)				(1,494)
Increase in restricted cash		(34,943)	(750)	(8)		(35,701)
Preferred stock issued, net	23,810					23,810
Common stock issued, net	1,000					1,000
Net cash provided by (used for) financing activities	1,060	109,334	(63,309)	124		47,209
Net increase (decrease) in cash and cash equivalents	(60,311)	80,646	(1,178)	3,743		22,900
Cash and cash equivalents at beginning of period	60,311	(249)	3,006	6,388		69,456
Cash and cash equivalents at end of period	$	$ 80,397	$ 1,828	$ 10,131	$	$ 92,356

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

CHAMPION ENTERPRISES, INC.

Results of Operations
Three and Nine Months Ended September 27, 2003
versus the Three and Nine Months Ended September 28, 2002

During 2003, our revenues and operating results continued to be affected by challenging industry conditions including limited availability of consumer financing and floor plan inventory financing, high levels of homes repossessed from consumers and an uncertain economic outlook. Since the industry downturn began in mid-1999 we have closed 38 manufacturing facilities, including four closures announced in the third quarter 2003, two in the second quarter 2003, and one in the first quarter 2003. Since mid-2000 we have closed 274 retail sales locations including 35 announced in the third quarter 2003 to eliminate under-performing operations and rationalize our operations and capacity for industry conditions.

According to data reported by the Institute for Building Technology and Safety (formerly the National Conference of States on Building Codes and Standards), U.S. industry wholesale shipments of HUD code homes for the first eight months of 2003 declined 25% from shipments in the comparable 2002 period.

Consolidated

	Three Months Ended		
	September 27, 2003	September 28, 2002	% Change
	(Dollars in millions)		
Net sales			
Manufacturing	$261.0	$302.0	(14%)
Retail	74.9	105.4	(29%)
Less: Intercompany	(25.0)	(33.8)	
Total net sales	$310.9	$373.6	(17%)
Gross margin	$ 39.8	$ 44.2	(10%)
Selling, general and administrative expenses (SG&A)	50.0	57.4	(13%)
Goodwill impairment charges	34.2		
Restructuring charges	20.1	31.6	
Operating loss	$ (64.5)	$ (44.8)	(44%)
As a percent of sales			
Gross margin	12.8%	11.8%	
SG&A	16.1%	15.4%	
Operating loss	(20.7%)	(12.0%)	

Nine Months Ended		
September 27, 2003	September 28, 2002	% Change

	(Dollars in millions)		
Net sales			
Manufacturing	$733.3	$ 882.4	(17%)
Retail	203.1	282.1	(28%)
Less: intercompany	(87.0)	(123.0)	
Total net sales	$849.4	$1,041.5	(18%)

	Nine Months Ended		
	September 27, 2003	September 28, 2002	% Change
	(Dollars in millions)		
Gross margin	$121.3	$ 149.0	(19%)
Selling, general and administrative expenses	141.8	181.5	(22%)
Gain on debt retirement	(13.8)	(5.9)	
Goodwill impairment charges	34.2	97.0	
Restructuring charges	20.1	36.5	
Operating loss	$ (61.0)	$(160.1)	62%

	Nine Months Ended	
	September 27, 2003	September 28, 2002
	(Dollars in millions)	
As a percent of sales		
Gross margin	14.3%	14.3%
SG&A	16.7%	17.4%
Operating loss	(7.2%)	(15.4%)

Net sales for the quarter and year-to-date periods ended September 27, 2003 decreased from the same periods in 2002 due primarily to operating fewer retail sales centers and manufacturing facilities and decreasing manufacturing and retail sales volumes, partially offset by sales price increases in both segments. At September 27, 2003, we were operating 34 manufacturing facilities and 80 sales centers, including the announced manufacturing plant closures that were still operating at quarter end, compared to 39 manufacturing facilities and 144 sales centers at September 28, 2002. Sales in the first nine months of 2003 were affected by industry conditions including limited availability of consumer financing and floor plan inventory financing, continuing high levels of industry consumer repossessions and an uncertain economic outlook.

Gross margin for the three months ended September 27, 2003 declined $4.4 million from the comparable quarter of 2002, which was due to lower sales volumes in 2003 versus 2002 and $2.1 million of additional accrued warranty costs related to prior closures of manufacturing facilities, partially offset by restructuring charges that were $4.5 million less in 2003 versus 2002 (see additional discussion under Restructuring Charges) and a $5.6 million increase to our casualty insurance reserves in the third quarter 2002, based on an actuarial study completed by an independent third party. Gross margin as a percent of sales for the quarter was favorably impacted by less restructuring charges and by the 2003 warranty charge of $2.1 million being less than the 2003 casualty insurance charge of $5.6 million, partially offset by the effects of lower retail sales which have a greater gross profit percent. Gross margin dollars for the nine months ended September 27, 2003 declined $27.6 million from the comparable period of 2002 primarily due to the $192 million decline in consolidated net sales. Gross margin as a percent of sales for the nine-month period of 2003 was impacted by the same factors that affected the quarter and also by manufacturing inefficiencies from lower manufacturing production volumes in 2003.

Third quarter 2003 SG&A declined by $7.4 million or 13% primarily due to the reduction in sales and the operation of 13% fewer manufacturing facilities and 44% fewer sales centers. The current quarter SG&A, as a percentage of sales, increased versus the third quarter 2002. During the third quarter of 2003, as a result of the increase in our stock price, we recorded a $2.5 million charge for the change in estimated fair value of an outstanding common stock warrant for 2.2 million shares. This charge, plus severance costs related to the termination of certain executive officers partially offset the reduced costs due to eliminating the SG&A at under-performing plants and sales centers as a result of their closure during 2002. These factors resulted in an increase in SG&A as a percentage of sales in the third quarter of 2003 versus 2002. SG&A for the nine-month period ended September 27, 2003 decreased 22% versus the prior year, primarily due to the same factors that affected the third quarter as discussed above. SG&A for the nine months in 2003 also included gains of $1.8 million from the sale of idled manufacturing facilities and a retail sales center. Year-to-date 2003 SG&A also included an increase in the wholesale repurchase reserve totaling $3.2 million in connection with the extension of repurchase terms to 24 months for certain national floor plan lenders and for the negative effects of market conditions on our largest independent retailer. During the second quarter of 2003, the Company agreed to extend both repurchase terms and the timing of required principal curtailment payments by this independent retailer to respective floor plan lenders resulting in a slightly higher repurchase exposure to the Company for a longer period of time.

In the third quarter of 2003, as a result of the significant downsizing of our operations in reaction to ongoing reductions in industry sales, we performed a test for retail and manufacturing goodwill impairment. The results of this impairment test indicated that the implied fair value of the retail goodwill was less than its carrying value, resulting in a non-cash pretax impairment charge of $34.2 million, which was recorded in the quarter ended September 27, 2003. For the nine months ended September 27, 2003, operating results included a gain on extinguishment of debt totaling $13.8 million for the purchase and retirement of $35.5 million of Senior Notes due 2009 and $15.0 million of Senior Notes due 2007 for total payments of $35.8 million. During the nine months ended September 28, 2002, we purchased and retired $30.0 million of our Senior Notes due 2009 for approximately $23.8 million and recognized a gain of $5.9 million. During the quarter ended June 29, 2002, we re-evaluated our goodwill and deferred tax assets and as a result recorded pretax non-cash charges of $97 million for retail goodwill impairments and $122.9 million for a deferred tax asset valuation allowance.

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Restructuring Charges

During the quarter ended September 27, 2003, we announced the closure of four manufacturing facilities, one manufacturing facility relocation and the closure of 35 retail sales centers and recorded $26.9 million of restructuring charges. During the quarter, the 35 retail sales centers ceased normal operations and 11 of those sales centers had been abandoned after the liquidation of inventory. The remaining closures will be completed in the fourth quarter of 2003 as the inventory is liquidated and the sites are vacated. The four announced manufacturing closures ceased production in early October. The closure of the four manufacturing facilities and relocation of one facility are expected to be substantially complete during the fourth quarter of 2003. In connection with these manufacturing and retail closures, we estimate additional restructuring charges totaling $2.3 million will be recorded in the fourth quarter 2003, primarily comprised of lease termination costs and severance costs. All restructuring actions are expected to be substantially complete by the end of the fourth quarter of 2003.

For the year-to-date period, retail closures, including the 35 described above, total 38 or 32% of the sales centers we were operating at the beginning of 2003, and manufacturing closures, including the four described above, total seven, or 19% of the manufacturing facilities operating at the beginning of 2003. During the quarter ended September 28, 2002, we closed 64 retail sales centers and seven manufacturing facilities and recorded $42.9 million of restructuring charges. During the nine months ended September 28, 2002, we closed 100 retail sales centers and ten manufacturing facilities. The 2002 restructuring charges also included $0.3 million of severance costs related to eliminating 19 employees from the corporate office staff and charges totaling $2.3 million related to exiting our principal development operations.

Restructuring charges for the three and nine months ended September 27, 2003 and September 28, 2002 were as follows:

	Three Months Ended		Nine Months Ended	
	September 27, 2003	September 28, 2002	September 27, 2003	September 28, 2002
	(In thousands)			
Manufacturing charges:				
Fixed asset impairment charges	$ 15,100	$ 19,500	$ 15,100	$ 19,500
Inventory charges	1,000	1,500	1,000	1,500
Warranty costs	3,300	3,500	3,300	3,500
Severance costs	600	1,800	600	1,800
Other closing costs	600		600	
Total manufacturing charges	20,600	26,300	20,600	26,300
Retail charges:				
Fixed asset impairment charges	2,000	5,000	2,000	6,900
Inventory charges	4,600	6,300	4,600	6,300
Lease termination costs	200	1,800	200	3,000
Other closing costs	1,600	900	1,600	2,700
Total retail charges	8,400	14,000	8,400	18,900
Development charges:				
Severance costs		1,200		1,200
Asset impairment charges		1,100		1,100
Total development charges		2,300		2,300
Corporate office severance costs		300		300
Intercompany profit elimination	(2,100)		(2,100)	
Total restructuring charges	$ 26,900	$ 42,900	$ 26,900	$ 47,800

Restructuring charges incurred in 2003 were accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Restructuring charges incurred prior to 2003 were accounted for in accordance with Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).

Inventory charges, net of intercompany profit elimination, and warranty costs are included in cost of goods sold while fixed asset impairment charges, severance costs, lease termination charges and other closing costs are included in restructuring charges.

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Fixed asset impairment charges for the announced manufacturing facility closures were primarily based on appraised values and our estimates of net sales values. At September 27, 2003, we had 22 idle manufacturing facilities of which 13 were permanent closures and are for sale. A majority of our idle manufacturing facilities are accounted for as long-lived assets to be held and used, including certain of those for sale, due to uncertainty of completing a sale within one year. Certain ongoing costs associated with the idle manufacturing facilities including, property taxes, property insurance and depreciation expense, will continue until the facilities are disposed of.

Manufacturing inventory charges are for obsolescence related to the consolidation of product lines and models as a result of the four plant closings and one plant relocation announced in the quarter as well as the elimination of stock keeping units. Additional warranty costs were provided for due to expected higher costs to service homes after the closure of plants in certain areas. Manufacturing severance costs are related to the termination of substantially all the employees at the four manufacturing facility closures announced in the quarter and include a portion of payments required under the Worker Adjustment and Retraining Notification Act and severance payments to qualifying salaried employees. Approximately 600 employees have been or will be terminated at these facilities.

Retail fixed asset impairment charges were determined based on net book value at the 35 closed sales centers and result from the planned abandonment of leasehold improvements. Retail inventory charges represent estimated losses resulting from the bulk sale of certain new home inventory and estimated lower of cost or market charges for inventory of land, park spaces and improvements at closed sales centers. For purposes of reconciling 2003 restructuring charges by segment, a credit (income) of $2.1 million resulted from the reduction in intercompany profit in inventory associated with the bulk sale of new home inventory mentioned above. Retail lease termination charges consist of accruals for future lease payments, net of estimated sublease income, or settlements for the termination of leases at vacated sales centers. Approximately 170 retail employees have been or will be terminated as a result of the announced 35 sales center closings.

Manufacturing Operations

We evaluate the performance of our manufacturing segment based on earnings (loss) before interest, income taxes and general corporate expenses (EBIT), excluding goodwill impairment charges.

	Three Months Ended		
	September 27, 2003	**September 28, 2002**	**% Change**
Net sales (in millions)	$ 261.0	$ 302.0	(14%)
EBIT (in millions)	$ (10.1)	$ (17.8)	43%
EBIT margin %	(3.9%)	(5.9%)	
Homes sold	6,787	8,411	(19%)
Floors sold	12,837	15,629	(18%)
Multi-section mix	83%	82%	
Average home price	$37,000	$34,600	7%

	Nine Months Ended		
	September 27, 2003	**September 28, 2002**	**% Change**
Net sales (in millions)	$ 733.3	$ 882.4	(17%)
EBIT (in millions)	$ (4.0)	$ (6.1)	35%
EBIT margin %	(0.5%)	(0.7%)	
Homes sold	19,383	25,280	(23%)
Floors sold	36,686	46,842	(22%)
Multi-section mix	84%	81%	
Average home price	$36,400	$33,600	8%
Manufacturing facilities at period end	34	39	(13%)

Manufacturing net sales for the quarter ended September 27, 2003 decreased 14% compared to the third quarter of 2002 as a result of selling 19% fewer homes, partially offset by a 7% increase in the average home selling price. We were operating 13% fewer facilities at the end of the third quarter of 2003 versus 2002. For the quarter ended September 27, 2003, our shipments of HUD code homes declined 23% from shipments a year earlier and our shipments of non-HUD code homes increased by 10% from shipments in the third quarter of 2002. Manufacturing net sales for the nine months ended September 27, 2003 decreased 17% compared to the same period last year due to a 23% decrease in the number of homes sold partially offset by an 8% increase in average home selling price. Year-

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to-date manufacturing sales volume was affected by operating fewer manufacturing facilities, a reduced number of Company-owned retail sales centers and industry conditions, including the effects of limited availability of consumer financing and floor plan inventory financing, high levels of homes repossessed from consumers and an uncertain economic outlook.

Manufacturing EBIT in the third quarter of 2003 increased $7.7 million or 43% from the prior year period primarily due to the $5.7 million reduction in restructuring charges (See Restructuring Charges , above) and the $5.6 million of additional casualty insurance reserves recorded in the third quarter 2002, partially offset by the $41 million decline in segment sales and the $2.1 million of warranty costs accrued in the third quarter 2003, related to the manufacturing facilities closed in prior periods. Manufacturing EBIT for the nine months ended September 27, 2003 improved $2.1 million from the same period in 2002 primarily due to the third quarter activities discussed above partially offset by poor results in the first quarter of 2003 which were affected by inefficiencies from lower production volumes and a $3.2 million increase in wholesale repurchase reserves in connection with the extension of repurchase terms to 24 months for certain national lenders and for the negative effects of market conditions on our largest independent retailer. Year-to-date 2003 results were also affected by an increase in the average sales price per home and a gain of $1.6 million from the sale of two idle manufacturing facilities.

Although retailer orders can be cancelled at any time without penalty, and unfilled orders are not necessarily an indication of future business, our unfilled manufacturing orders for housing at September 27, 2003 totaled approximately $64 million at the 34 plants then operated, compared to $41 million at 39 plants at September 28, 2002. A majority of the year-over-year increase in unfilled orders was concentrated in three geographic areas.

Retail Operations

We evaluate the performance of our retail segment based on EBIT, excluding goodwill impairment charges.

	Three Months Ended		
	September 27, 2003	**September 28, 2002**	**% Change**
Total net sales (in millions)	$ 74.9	$ 105.4	(29%)
EBIT (in millions)	$ (9.4)	$ (19.6)	52%
EBIT margin %	(12.5%)	(18.6%)	
New homes sold	1,014	1,648	(38%)
Pre-owned homes sold	327	410	(20%)
Total homes sold	1,341	2,058	(35%)
% Champion-produced new homes sold	96%	96%	
New home multi-section mix	88%	82%	
Average new home price (excluding bulk sales)	$79,100	$63,400	25%
Average number of new homes sold per sales center per month (excluding bulk sales)	2.8	2.9	(3%)
Average number of new homes sold per sales center per month - 80 ongoing locations	3.0	3.5	(14%)

	Nine Months Ended		
	September 27, 2003	**September 28, 2002**	**% Change**
Total net sales (in millions)	$ 203.1	$ 282.1	(28%)
EBIT (in millions)	$ (12.8)	$ (41.5)	69%
EBIT margin %	(6.3%)	(14.7%)	
New homes sold	2,612	4,272	(39%)
Pre-owned homes sold	927	1,133	(18%)
Total homes sold	3,539	5,405	(35%)
% Champion-produced new homes sold	95%	96%	

New home multi-section mix	86%	80%	
Average new home price (excluding bulk sales)	$ 75,700	$ 62,600	21%
Average number of new homes sold per sales center per month (excluding bulk sales)	2.4	2.1	14%
Average number of new homes sold per sales center per month - 80 ongoing locations	2.7	2.8	(4%)
Average number of new homes in inventory per sales center at period end	16.3	16.3	
Sales centers at period end	80	144	(44%)

Retail sales for the three and nine months ended September 27, 2003 decreased 29% and 28%, respectively, versus the same periods last year due to a decline in new home sales, partially offset by a higher average selling price per home. The decrease in net sales and homes sold is due to operating fewer sales centers. During the third quarter we announced the closure of 35 retail locations, all of which had ceased normal operations during the quarter and 11 of which had been abandoned during the quarter after the liquidation of inventory. During the quarter, we operated an average of 98 sales centers, 44% lower than the average of 176 sales centers operated in the third quarter of 2002. The decrease in the average number of new homes sold per sales center per month during the third quarter of 2003 for ongoing locations reflects the continuing difficult market conditions and limited consumer financing availability. The 25% increase in average new home selling price resulted from the sale of a greater proportion of larger, higher-priced multi-section homes and homes with more add-ons, improvements and amenities. The average number of new homes in inventory per sales center at period end is calculated based on the total number of new homes in inventory, including those at closed sales centers, divided by the number of operating sales centers at period end, as reported.

Retail EBIT for the three and nine months ended September 27,