

Edgar Filing: CHAMPION ENTERPRISES INC - Form 8-K

CHAMPION ENTERPRISES INC
Form 8-K
October 17, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15 (d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 17, 2001

Champion Enterprises, Inc.

(Exact name of registrant as specified in its charter)

Michigan

State or other jurisdiction of incorporation

1-9751

38-2743168

Commission File Number

IRS Employer Identification No.

2701 Cambridge Court, Suite 300, Auburn Hills, Michigan 48326

(Address of principal executive offices)

(Zip Code)

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

Item 5. Other Events.

The following press release was issued by the Registrant on October 17, 2001. The format of the financial statements have been slightly modified from those included in the press release to comply with certain Securities and Exchange Commission rules.

Edgar Filing: CHAMPION ENTERPRISES INC - Form 8-K

CHAMPION ENTERPRISES, INC. REPORTS THIRD QUARTER RESULTS

EARNINGS OF \$0.05 PER DILUTED SHARE

Auburn Hills, Mich., October 17, 2001--Champion Enterprises, Inc. (NYSE: CHB), the nation's leading housing manufacturer, today reported income of \$2.5 million, or \$0.05 per diluted share, for the third quarter ended September 29, 2001. In last year's comparable quarter, Champion had a net loss of \$4 million, or \$0.08 per diluted share. Revenues were \$428 million in this year's third quarter, off 8% from \$466 million a year ago.

For the year-to-date period, the company had revenues of \$1.2 billion and a net loss of \$23 million, or \$0.48 per diluted share, including costs related to closing four homebuilding facilities and 30 sales centers. These closing-related expenses totaled \$5.4 million after tax (\$0.11 per diluted share), including \$4.0 million for non-cash asset impairment charges. For the first nine months of 2000, consolidated revenues were \$1.5 billion and net income was \$150,000. Included in prior year-to-date results were \$2.8 million after tax (\$0.06 per diluted share) for asset impairment charges and lease termination and other costs.

Champion's Chairman, President, and Chief Executive Officer, Walter R. Young, commented, "We're pleased with the earnings and leverage of our manufacturing operations and excited about our Genesis platform. We are also encouraged by the progress in our retail operations, where company store traffic has steadily improved since dropping on September 11th. Retail traffic and contract closings in early October are approaching pre-attack levels."

Operations

For the quarter ended September 29, 2001, manufacturing margins as a percent of revenues improved to 7.2% from 3.9% in last year's third quarter on a 4% decrease in sales. The company had manufacturing revenues of \$362 million and segment income of \$25.9 million, compared

to revenues of \$378 million and segment income of \$14.7 million a year earlier. Prior year results include a \$2.5 million gain from a property insurance settlement and \$1.0 million of impairment charges for a closed homebuilding facility. For the year-to-date period in 2001, manufacturing revenues totaled \$974 million and segment income was \$34.8 million, including \$3.3 million of fixed asset impairment charges. Unfilled wholesale orders for housing at quarter end totaled approximately \$54 million, twice as high as the \$27 million level a year ago. The company now operates 49 plants, down from 55 at September 2000.

Retail operations had revenues of \$120 million for the third quarter of 2001 and a loss of \$6.1 million. Current quarter results include a \$3.7 million charge for potential losses on loans and transition costs for alternative financing sources. These charges resulted from a recent discovery of not applying internal procedures for originating loans. In the comparable quarter a year ago, revenues were \$149 million and the segment reported a loss of \$3.4 million. Prior year quarterly results include \$2.2 million for closing and consolidating sales centers. Year-to-date the segment reported revenues of \$357 million and a loss of \$22.7 million, including \$3.2 million for fixed asset impairment charges, \$2.2 million for lease termination and other costs and the \$3.7 million for potential losses on loans. At quarter end Champion's 229 company-owned stores

Edgar Filing: CHAMPION ENTERPRISES INC - Form 8-K

had an average inventory of 13 new homes per location, down from 18 homes at the 270 locations operated last September.

Liquidity and Capital Structure

Champion ended the quarter with \$66 million in cash, no bank borrowings and total debt of \$294 million. Cash flow from operations was \$37 million for the quarter and \$65 million for the nine-month period. Year-to-date, \$5 million was spent on capital expenditures, down from \$13 million in the comparable period a year ago. Capital expenditures in 2001 are expected to be less than \$7 million for the year, down from \$15 million in 2000. Since December 2000, \$47 million was used to reduce debt.

In July 2001, Champion improved its capital structure and short-term liquidity by issuing \$20 million of convertible preferred stock and restructuring its liability for deferred purchase price related to a 1998 retail acquisition. In addition, as a result of the company's ongoing efforts to reduce inventories and to diversify its floor plan payables, Champion currently has \$49 million outstanding with Conseco Finance and \$19 million with other finance sources. The company also reported that it has renegotiated its bank covenants to allow for performance flexibility.

Outlook

Young continued, "The potential effect of economic uncertainty on industry demand and repossessions has caused us to revise our 2002 estimates. We now predict that industry new home retail sales and shipments for next year will be 200,000 homes. These amounts will represent a 7% decrease in new retail sales and a 3% increase in production. We estimate that next year's industry repossessions will be 90,000 homes, comparable to our estimate for this year.

"Our efforts to reduce expenses, capacity, inventories and debt contributed to this quarter's profitability and better position us for the months ahead. We remain concerned about the seasonally slower fourth and first quarters, particularly with the uncertainty surrounding the economy. As a result we estimate that in the fourth quarter we will probably have a loss in the range of \$0.07 to \$0.12 per diluted share, but expect to be profitable next year even at the lower industry levels now forecasted," Young concluded.

Champion Enterprises, Inc., headquartered in Auburn Hills, Michigan, is the industry's leading manufacturer and has produced more than 1.5 million homes since the company was founded. The company operates 49 homebuilding facilities and 229 retail locations. Champion's homes are also sold by more than 1,000 independent retail locations that have joined either the Champion Home Center or the Alliance of Champions retail distribution networks. Further information can be found at the company's website, www.championhomes.net.

This news release contains certain statements, including forecasts of expected results, assessments of industry conditions including total consumer sales, repossession sales, and wholesale production, and capital expenditures, which could be construed to be forward looking statements within the meaning of the Securities and Exchange Act of 1934. These statements reflect the company's views with respect to future plans, events and financial performance. The company does not undertake any obligation to update the information contained herein, which speaks only as of the date of this press release. The company has identified certain risk factors which could cause actual results and plans to differ substantially from those included in the forward looking statements. These factors are discussed in the company's most recently filed Form 10-K, and that discussion regarding risk factors is incorporated herein by reference.

Edgar Filing: CHAMPION ENTERPRISES INC - Form 8-K

CHAMPION ENTERPRISES, INC. AND
SUBSIDIARIES
CONSOLIDATED FINANCIAL
SUMMARY

(DOLLARS AND WEIGHTED SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended			%	Nine Mon
	Sept. 29, 2001	Sept. 30, 2000	Chg.		
Net sales (1):					
Manufacturing	\$362,005	\$378,449	(4%)	\$973,714	
Retail	119,637	148,619	(20%)	357,442	
Less: intercompany	(54,000)	(61,000)		(149,000)	
Total net sales	427,642	466,068	(8%)	1,182,156	
Cost of sales (1)	350,175	390,359	(10%)	983,470	
Gross margin	77,467	75,709	2%	198,686	
Selling, general and administrative expenses (4)	67,461	71,420	(6%)	209,363	
Fixed asset impairment charges (2)	-	(4,000)		(6,500)	
Operating income (loss) (3)	10,006	289		(17,177)	
Interest expense, net	5,190	6,762	(23%)	17,400	
Income (loss) before income taxes	4,816	(6,473)		(34,577)	
Income taxes (benefits) (5)	2,300	(2,500)		(11,500)	
Net income (loss)	\$2,516	(\$3,973)		(\$23,077)	
Basic earnings (loss) per share (6)	\$0.05	(\$0.08)		(\$0.49)	
Weighted shares for basic EPS	47,957	47,248		47,767	

Edgar Filing: CHAMPION ENTERPRISES INC - Form 8-K

Diluted earnings (loss) per share (6)	\$0.05	(\$0.08)	(\$0.48)
Weighted shares for diluted EPS	50,942	47,248	47,767

See accompanying Notes to Financial Information.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
OTHER STATISTICAL INFORMATION

	Three Months Ended			Ni
	Sept. 29, 2001	Sept. 30, 2000	% Chg.	
MANUFACTURING				
Homes sold	10,941	12,393	(12%)	30,069
Less: intercompany	1,608	1,997	(19%)	4,255
Homes sold to independent retailers/builders	9,333	10,396	(10%)	25,814
Floors sold	19,804	21,682	(9%)	54,016
Multi-section mix	77%	73%		76%
Average home price	\$3 1,700	\$ 29,200	9%	\$ 31,100
Manufacturing facilities at period end	49	55	(11%)	49
RETAIL				
Homes sold				
New homes	1,990	2,776	(28%)	5,997
Pre-owned homes	461	650	(29%)	1,503
Total homes sold	2,451	3,426	(28%)	7,500
% Champion-produced new homes sold	91%	77%		87%

Edgar Filing: CHAMPION ENTERPRISES INC - Form 8-K

New multi-section mix	73%	62%		71%
Average new home price	\$56,600	\$50,200	13%	\$ 56,000
Average number of new homes in inventory per sales center at period end	13	18	(28%)	13
Sales centers at period end	229	270	(15%)	229

CONSOLIDATED (in thousands)

Contingent repurchase obligations	\$310,000	\$480,000	(35%)	\$310,000
Champion-produced field inventories	\$670,000	\$800,000	(16%)	\$670,000
Shares issued and outstanding	47,990	47,246	2%	47,990

See accompanying Notes to Financial Information.

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

ASSETS	Sept. 29, 2001	June 30, 2001	Dec. 30, 2000	Sept 2
Cash and cash equivalents	\$65,907	\$35,892	\$50,143	\$3
Accounts receivable, trade	68,021	65,681	31,132	6
Inventories	175,267	182,231	217,765	25
Deferred taxes and other	74,963	77,181	77,493	7
Total current assets	384,158	360,985	376,533	43
Property and equipment, net	182,786	187,238	207,277	21
Goodwill, net	265,213	268,158	273,970	46
Deferred taxes and other assets	79,597	79,999	84,276	3
	\$911,754 =====	\$896,380 =====	\$942,056 =====	\$1,14 =====
LIABILITIES AND SHAREHOLDERS' EQUITY				
Floor plan payable	\$68,084	\$85,074	\$114,198	\$12
Accounts payable	76,087	69,852	43,103	6
Other accrued liabilities	194,046	187,679	185,552	20

Edgar Filing: CHAMPION ENTERPRISES INC - Form 8-K

Total current liabilities	338,217	342,605	342,853	39
Long-term debt	224,592	225,286	225,634	22
Other long-term liabilities	55,285	55,843	76,760	7
Preferred stock	20,000	-	-	
Shareholders' equity	273,660	272,646	296,809	44
	\$911,754	\$896,380	\$942,056	\$1,14
	=====	=====	=====	=====

See accompanying Notes to Financial Information.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL INFORMATION

(1) For the three and nine months ended September 30, 2000, net sales and cost of sales have been restated to reclassify delivery revenue to sales from cost of sales.

(2) For the nine months ended September 29, 2001, non-cash asset impairment charges of \$6.5 million (\$4.0 million after tax or \$0.08 per diluted share) were recorded related to closed operations. For the three and nine months ended September 30, 2000, non-cash asset impairment charges of \$4.0 million (\$2.4 million after tax or \$0.05 per diluted share) were recorded related to closed operations.

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

-----	Sept. 29,	% of	Sept. 30,	% of
Three months ended:	2001	Related Sales	2000	Related Sales

Manufacturing EBITA	\$25,896	7.2%	\$14,731	3.9%
Retail EBITA	(6,082)	-5.1%	(3,413)	-2.3%
General corporate expenses	(6,891)		(8,107)	
Intercompany profit elimination	-		500	
Goodwill amortization	(2,917)		(3,422)	

Edgar Filing: CHAMPION ENTERPRISES INC - Form 8-K

Operating income	\$10,006 =====	2.3%	\$ 289 =====	0.1%
------------------	-------------------	------	-----------------	------

Nine months ended:	Sept. 29, 2001	% of Related Sales	Sept. 30, 2000	% of Related Sales
Manufacturing EBITA	\$34,812	3.6%	\$47,746	3.8%
Retail EBITA	(22,737)	-6.4%	6,067	1.3%
General corporate expenses	(20,574)		(20,860)	
Intercompany profit elimination	-		4,000	
Loss from independent retailer bankruptcy	-		(5,000)	
Goodwill amortization	(8,678)		(10,328)	
Operating income (loss)	(\$17,177) =====	-1.5%	\$ 21,625 =====	1.4%

(4) For the three months ended September 29, 2001, a charge of \$3.7 million (\$2.2 million after tax or \$0.04 per diluted share) was recorded for potential losses on loans and transition costs for alternative financing sources. The nine months then ended also includes lease termination and other costs of \$2.2 million (\$1.4 million after tax or \$0.03 per diluted share) related to closed retail operations. For the three months ended September 30, 2000, property insurance gains of \$2.5 million and lease termination and other costs of \$700,000 were recorded. The nine months then ended includes \$6.9 million of property insurance gains and \$700,000 of lease termination and other costs.

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

(6) Basic earnings (loss) per share includes the effect of the dividend on preferred stock as calculated below (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Net income (loss)	\$2,516	(\$3,973)	(\$23,077)	
Less: Dividend on preferred stock	250	-	250	

Edgar Filing: CHAMPION ENTERPRISES INC - Form 8-K

Income (loss) available to common shareholders	\$2,266 =====	(\$3,973) =====	(\$23,327) =====
Basic earnings (loss) per share	\$0.05 =====	(\$0.08) =====	(\$0.49) =====

Diluted earnings (loss) per share is based on net income (loss) without deducting the dividend on preferred stock.

Item 7. Exhibits.

Exhibit
Number.

-
- 10.1 Eighth Amendment dated September 27, 2001 to the Credit Agreement dated May 5, 1998 by and among Champion Enterprises, Inc.; the guarantors party; the banks party; Bank One, Michigan, as Administrative Agent and Syndication Agent; Comerica Bank, as Documentation Agent; and National City Bank, Harris Trust and Savings Bank, Keybank, National Association, Bank of America, N.A., and Wachovia Bank, N.A., as Co-Agents.
- 10.2 Ninth Amendment dated October 15, 2001 to the Credit Agreement dated May 5, 1998 by and among Champion Enterprises, Inc.; the guarantors party; the banks party; Bank One, Michigan, as Administrative Agent and Syndication Agent; Comerica Bank, as Documentation Agent; and National City Bank, Harris Trust and Savings Bank, Keybank, National Association, Bank of America, N.A., and Wachovia Bank, N.A., as Co-Agents.

SIGNATURES

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

CHAMPION ENTERPRISES, INC.

/S/ ANTHONY S. CLEBERG

Anthony S. Cleberg
Executive Vice President and
Chief Financial Officer

Edgar Filing: CHAMPION ENTERPRISES INC - Form 8-K

October 17, 2001

INDEX TO EXHIBITS

Exhibit No.	Description	Sequential Page No.
-----	-----	-----
10.1	Eighth Amendment dated September 27, 2001 to the Credit Agreement dated May 5, 1998 by and among Champion Enterprises, Inc.; the guarantors party; the banks party; Bank One, Michigan, as Administrative Agent and Syndication Agent; Comerica Bank, as Documentation Agent; and National City Bank, Harris Trust and Savings Bank, Keybank, National Association, Bank of America, N.A., and Wachovia Bank, N.A., as Co-Agents.	
10.2	Ninth Amendment dated October 15, 2001 to the Credit Agreement dated May 5, 1998 by and among Champion Enterprises, Inc.; the guarantors party; the banks party; Bank One, Michigan, as Administrative Agent and Syndication Agent; Comerica Bank, as Documentation Agent; and National City Bank, Harris Trust and Savings Bank, Keybank, National Association, Bank of America, N.A., and Wachovia Bank, N.A., as Co-Agents.	