CHAMPION ENTERPRISES INC
Form 8-K
February 12, 2003

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): February 12, 2003

CHAMPION ENTERPRISES,INC.
(Exact name of registrant as specified in its charter)

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

2701 Cambridge Court, Suite 300
Auburn Hills, Michigan 48326
(Address of principal executive offices)

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

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

Item 5. Other Events.

The Registrant issued the following press release on February 12, 2003.

CHAMPION ENTERPRISES, INC.

REPORTS FOURTH QUARTER AND
YEAR END RESULTS

Auburn Hills, Mich., February 12, 2003--Champion Enterprises, Inc. (NYSE: CHB), the nation's leading housing manufacturer, today reported results for its fourth quarter and year ended December 28, 2002. For the quarter, Champion had total revenues of $330 million and a net loss of $5.5 million ($0.12 per diluted share), compared to revenues of $366 million and a net loss of $4.8 million ($0.10 per diluted share) in the same quarter a year earlier. For the twelve months ended December, the company had revenues of $1.4 billion and a net loss of $256 million ($5.22 per diluted share) in 2002, compared to revenues of $1.5 billion and a net loss of $28 million ($0.59 per diluted share) a year ago. In 2001 Champion had after tax goodwill amortization expense for the three and twelve months of $2.2 million ($0.05 per diluted share) and $8.8 million ($0.18 per diluted share), respectively.

Included in 2002 results were restructuring charges to close and consolidate retail sales centers and manufacturing facilities. For the quarter, these charges totaled $7.5 million pretax, consisting of losses on inventory liquidation of $4.0 million, asset impairment charges of $1.4 million, lease termination costs of $0.9 million and other closing related expenses of $1.2 million. Also included in quarterly results was a $2.3 million pretax gain from the sale of seven idle homebuilding facilities and a $1.5 million gain from the settlement of debt related to development operations. A $14.5 million tax benefit was also recognized for the quarter resulting from operating losses for the three-month period and from the completion of the sale or abandonment of certain acquired businesses and assets.

In the year-to-date period of 2002, pretax closing related expenses were $55.3 million, including non-cash asset impairment charges of $28.9 million. In addition, pretax results included goodwill impairment charges of $97 million and gains from debt retirement of $7.4 million. The tax provision for the twelve months ended 2002 included a deferred tax asset valuation allowance of $102.3 million.

Chairman, President, and Chief Executive Officer, Walter R. Young, commented, "Results in 2002 were hurt by tough market conditions, with industry wholesale shipments dropping 24.6% for the quarter and 12.8% for the year. Wholesale shipments were 168,491 homes in 2002, the lowest level since 1963. Substantial uncertainty exists as a result of the ongoing lack of affordable consumer financing and high consumer repossession levels. While our actions to manage through this cycle had a significant negative affect on earnings, we substantially strengthened our liquidity position and operating cash flows. We also considerably reduced our operating breakeven points and improved earnings potential."

Operations

Manufacturing- For the three-month period, manufacturing revenues decreased 17% to $268 million from $323 million one year earlier. Quarterly manufacturing segment income was $6.5 million excluding the $2.3 million gain on sale of fixed assets, compared to $19.3 million in the three months ended December 2001. For the year-to-date period, the manufacturing segment had revenues of $1.2 billion in 2002, down 11% from $1.3 billion in 2001. Excluding restructuring charges of $26.3 million and the gain on sale of fixed assets, the manufacturing segment reported income of $26.7 million for the year, compared to $57.4 million in the year ago period (excluding $3.3 million for impairment charges related to closed operations).

Champion had unfilled manufacturing orders of $26 million at 37 plants this December, compared to $18 million at 49 plants a year earlier. Losses related to independent retailer defaults in 2002 dropped to $1.3 million from $3.9 million in 2001. Genesis sales to builders and developers increased 15% from 2,700 homes a year ago to 3,100 homes in 2002, representing 10% of Champion's manufacturing homes sold and an estimated 15% of manufacturing revenues.

Retail- For the quarter, retail revenues were $95 million and the segment had a loss of $7.1 million excluding $9.7 million of expenses to close 26 retail locations. In the fourth quarter of 2001, retail operations had comparable revenues and a loss of $9.2 million excluding $1.2 million of closing-related expenses. In the three months ended in 2002, closing-related expenses consisted of $6.7 million for losses on inventory liquidation, $0.9 million for non-cash asset impairment charges, $0.9 million for lease termination costs and $1.2 million for other closing expenses. Excluding closing-related expenses of $28.6 million in 2002 and $5.6 million in 2001, the retail segment reported a loss of $29.6 million for the year, compared to a loss of $27.6 million one year earlier.

In 2002 fourth quarter same store sales increased 10% from a year earlier. For the quarter, the average number of new homes sold per sales location, excluding the wholesale liquidation of inventory from closed sales centers, increased 46% largely as a result of closing under performing retail locations and the liquidation of related inventories. Retail locations reduced inventories by 800 new homes during the quarter, or by 34%, to an average of 13.2 new homes per store from 16.3 at the end of September.

Finance- HomePride Finance Corp. originated $26.1 million of loans for the quarter and $55.6 million for the year. The company received $35.6 million of proceeds for $46.8 million of loans placed in its warehouse funding facility in 2002. As expected, while HomePride is in its start-up phase of operations, it reported a pretax loss of $3.3 million and $8.3 million, respectively, for the three- and twelve-month periods.

Corporate Expenses- In 2002 general corporate expenses included restructuring charges related to development investments of $0.5 million for the quarter and $2.8 million for the year. Corporate expenses in the year-to-date period also included $0.3 million of severance costs.

Capital Structure

Champion ended the year with $77.4 million in unrestricted cash and $52.3 million in restricted cash, primarily serving as collateral for outstanding letters of credit. In addition, the company had $16.1 million in cash deposits, which were classified as other current assets on the balance sheet. During the three and twelve months ended December 2002, the company used $1.7 million and $1.5 million, respectively, of cash flow for operations.

In January 2003 Champion finalized a committed three-year, $75 million revolving credit facility (subject to borrowing base availability) to be used in support of letters of credit and for general corporate purposes. As of the end of January 2003, $57.1 million of letters of credit were outstanding on this line, which is collateralized by accounts receivable, inventories, property, plant, and equipment and, to a lesser degree, cash and other assets. Upon issuing these letters of credit, restricted cash and cash deposits, in the aggregate, were reduced to $27.3 million and, over the next three months, are expected to be reduced to approximately $15 million.

Champion had total debt outstanding at the end of December of $359.2 million, including floor plan payable and excluding warehouse line borrowings in support of its finance operations. During the fourth quarter of 2002, $15 million of the company's Series B-1 convertible preferred stock was redeemed for common stock at the floor redemption price of $5.66 per common share. A total of 2.65 million common shares were issued in connection with these redemptions.

Young said, "We will continue to manage our operations with a primary focus on cash flow. In 2002 net working capital invested in operations decreased by $50 million, a 33% improvement over 2001. Further, with the addition of our new credit facility, we realized an immediate improvement in our unrestricted cash position of $41 million and, over the next several months, expect to free up an additional $10 million to $15 million of cash as a result of this line. Finally, while uncertainty always exists with respect to this process, the company expects to file its 2002 tax returns for an estimated $60 million tax refund in the second quarter of this year."

Industry View

The company currently estimates 2003 industry wholesale HUD code shipments of 165,000 homes, slightly below 2002 levels and substantially less than the peak of 373,000 shipments in 1998. This estimate assumes that industry repossessions could increase from an estimated 90,000 in 2002 to 115,000 homes in 2003, an estimate which is dependent upon, among other things, the eventual management of the Conseco Finance portfolio. Such a high level of repossessions could represent up to 40% of total consumer demand as opposed to approximately 10% in a more normal environment. While consumer home-only financing remains tight, the company believes that cash and real estate loans represent over 60% of the industry's new home funding, up from 20% during the industry's peak sales levels.

Outlook

"Despite the progress we've made in reducing our operating breakeven points and positioning the company for a return to profitability, we still expect to report a loss in the seasonally slower first quarter. Industry conditions remain uncertain, which makes forecasting any further out very difficult. As we did in 2002, we will continue to carefully monitor each of our location's results and take prompt actions, if and where necessary, to maximize our cash and profitability as this difficult industry cycle continues," Young concluded.

Champion Enterprises, Inc., headquartered in Auburn Hills, Michigan, is the industry's leading manufacturer and has produced nearly 1.6 million homes since the company was founded. The company operates 37 homebuilding facilities in 16 states and two Canadian provinces and 118 retail locations in 24 states. Independent retailers, including 657 Champion Home Center locations, and approximately 600 builders and developers also sell Champion-built homes. The company also provides financing for retail purchasers of its homes. Further information can be found at the company's website, www.championhomes.net.

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

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

	Unaudited Three Months Ended			De
	Dec. 28, 2002	Dec. 29, 2001	% Chg.	
Revenues:				
Manufacturing net sales	$ 268,235	$ 322,601	(17%)	$
Retail net sales	94,544	95,468	(1%)	
Financial services revenues	1,233	-		
Less: intercompany	(33,686)	(52,000)		
Total revenues	330,326	366,069	(10%)	
Cost of sales (1)	285,151	299,746	(5%)	
Gross margin	45,175	66,323	(32%)	
Selling, general and administrative expenses	53,630	66,610	(19%)	
Financial services operating costs	4,391	-		
Goodwill impairment charges (2)	-	-		
Closing-related expenses (1)				
Asset impairment charges	1,400	1,200		
Other closing costs	2,100	-		

Gain on fixed asset sales (1)	(2,300)	-	
Gain on debt retirement (3)	(1,515)	-	
Operating loss (4)	(12,531)	(1,487)	
Interest expense, net	7,452	5,224	
Loss before income taxes (5)	(19,983)	(6,711)	
Income taxes (benefits) (6)	(14,500)	(1,900)	
Net loss	(5,483)	(4,811)	
Less: dividends on preferred stock	482	250	
Loss available to common shareholders	$ (5,965)	$ (5,061)	$
Basic and diluted loss per share	$ (0.12)	$ (0.10)	$
Weighted shares for basic and diluted EPS	50,976	48,247	

See accompanying Notes to Financial Information.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
OTHER STATISTICAL INFORMATION (UNAUDITED)

	Three Months Ended		
	Dec. 28, 2002	Dec. 29, 2001	% Chg.
MANUFACTURING			
Homes sold	7,180	9,482	(24%)
Less: intercompany	908	1,530	(41%)
Homes sold to independent retailers/builders	6,272	7,952	(21%)
Total floors sold	13,566	17,471	(22%)
Floors sold per average plant	357	357	

Multi-section mix	85%	80%	
Average home price	$35,900	$32,600	10%
Manufacturing facilities at period end	37	49	(24%)
RETAIL			
Homes sold			
New homes retailed	1,199	1,581	(24%)
New homes wholesaled	535	-	
Pre-owned homes	277	394	(30%)
Total homes sold	2,011	1,975	2%
% Champion-produced new homes sold	97%	93%	
New multi-section mix	84%	74%	
Average new home price (excl. wholesaled)	$66,800	$56,800	18%
Average number of new homes sold per sales center per quarter (excl. wholesaled) (7)	9.2	6.3	46%
Average number of new homes in inventory per sales center at period end (7)	13.2	12.6	5%
Sales centers at period end (7)	118	244	(52%)
CONSOLIDATED (in thousands)			
Contingent repurchase obligations	$225,000	$300,000	(25%)
Champion-produced field inventories	$510,000	$625,000	(18%)
Shares issued and outstanding	52,658	48,320	9%
Depreciation expense	$4,648	$5,897	(21%)
Cash provided by (used for) operations (8)	($1,725)	$1,807	(195%)

See accompanying Notes to Financial Information.

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

ASSETS	Dec. 28, 2002	Unaudited Sept. 28, 2002	Dec. 29, 2001
Cash and cash equivalents	$ 77,381	$ 92,356	$ 69,456
Restricted cash	33,857	18,613	648
Accounts receivable, trade	28,631	48,172	27,507
Inventories	111,352	146,386	172,276
Refundable taxes, deferred taxes and other current assets	89,547	61,891	75,737
Total current assets	340,768	367,418	345,624

Loans receivable, net	52,488	28,282	-
Property and equipment, net	127,644	135,910	177,430
Goodwill, net	165,437	165,940	258,967
Restricted cash	18,443	18,443	-
Deferred taxes and other assets	24,109	24,240	76,131
	$ 728,889	$ 740,233	$ 858,152
LIABILITIES AND SHAREHOLDERS' EQUITY			
Floor plan payable	$ 17,147	$ 9,180	$ 70,919
Warehouse line borrowing	35,565	17,903	-
Accounts payable	37,615	58,589	47,559
Other accrued liabilities	173,615	192,834	174,036
Total current liabilities	263,942	278,506	292,514
Long-term debt	341,612	344,734	224,926
Other long-term liabilities	56,754	46,867	48,678
Mandatorily redeemable convertible preferred stock	29,256	44,108	20,000
Shareholders' equity	37,325	26,018	272,034
	$ 728,889	$ 740,233	$ 858,152

See accompanying Notes to Financial Information.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL INFORMATION (UNAUDITED)

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

	Three Months Ended		Twelve Mo
	Dec. 28, 2002	Dec. 29, 2001	Dec. 28, 2002
Closing-related expenses:			
Cost of sales	$ 4,000	$ -	$ 15,300
Selling, general and administrative expenses	3,500	1,200	40,000
	$ 7,500	$ 1,200	$ 55,300
Operations closed or consolidated:			
Retail sales centers	26	13	126
Manufacturing facilities	2	-	12

In the quarter ended December 2002, the company sold seven idle homebuilding facilities, which resulted in a gain of $2.3 million.

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL INFORMATION (UNAUDITED) (CON'T)

(2) During the twelve months ended in 2002, the company recorded retail goodwill impairment charges totaling $97 million.

(3) During the quarter ended December 2002, the company recorded a pretax gain of $1.5 million from the settlement of debt related to its development operations. The year-to-date period also included a $5.9 million pretax gain resulting from the repurchase of $30 million of Senior Notes due 2009 for $23.8 million.

(4) A reconciliation of operating loss follows (in thousands):

	Three Months Ended		Twelve
	Dec. 28, 2002	Dec. 29, 2001	Dec. 28, 2002
Operating income (loss) before goodwill impairment charges and amortization expense, closing-related expenses and gains on fixed asset sales and debt retirement	$ (8,846)	$ 2,653	$ (34,9
Goodwill impairment charges	-	-	(97,0
Goodwill amortization expense	-	(2,940)	
Closing-related expenses	(7,500)	(1,200)	(55,3
Gain on fixed asset sales	2,300	-	2,3
Gain on debt retirement	1,515	-	7,3
Operating loss	$ (12,531)	$ (1,487)	$ (177,5

(5) Manufacturing and retail EBITA consists of earnings (loss) before interest, taxes and goodwill amortization, and includes the gain on fixed asset sales and asset impairment charges and other costs related to closed or consolidated operations. Financial services loss includes operating costs, net interest income earned on finance loans receivable and interest expense from the warehouse facility. A reconciliation of loss before income taxes follows (dollars in thousands):

Three months ended:	Dec. 28, 2002	% of Related Sales	Dec. 29, 2001
Manufacturing EBITA	$ 8,803	3.3%	$ 19,3
Retail EBITA (loss)	(16,753)	-17.7%	(10,4
Financial services loss	(3,320)		
Gain on debt retirement	1,515		
General corporate expenses	(7,068)		(7,4
Intercompany profit elimination	4,130		
Goodwill amortization	-		(2,9

Interest, net, excluding financial services	(7,290)		(5,2
Loss before income taxes	$ (19,983)	-6.0%	$ (6,7

Twelve months ended:	Dec. 28, 2002	% of Related Sales	Dec. 29, 2001
Manufacturing EBITA	$ 2,743	0.2%	$ 54,1
Retail EBITA (loss)	(58,204)	-15.5%	(33,1
Financial services loss	(8,283)		
Gain on debt retirement	7,385		
General corporate expenses	(30,903)		(28,0
Goodwill impairment charges	(97,000)		
Intercompany profit elimination	6,460		
Goodwill amortization	-		(11,6
Interest, net, excluding financial services	(26,353)		(22,6
Loss before income taxes	$ (204,155)	-14.9%	$ (41,2

CHAMPION ENTERPRISES, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL INFORMATION (UNAUDITED) (CON'T)

(6) In 2002 the company provided a 100% valuation allowance for its deferred tax assets and recorded tax benefits for tax losses which can be carried back for refunds of taxes previously paid. The effective tax rate for the three months ended December 2002 differs from the 35% federal statutory rate due to changes in temporary differences, benefits of which were recorded during the quarter. The effective tax rate for the twelve months ended December 2002 differs from the federal statutory rate due primarily to changes in temporary differences, non-deductible goodwill impairment charges and the deferred tax asset valuation allowance. For the three and twelve months ended December 2001, the difference between the federal statutory rate and the effective tax rate is due to state income taxes and non-deductible items, primarily goodwill amortization.

(7) The number of sales centers at period end has been revised to include outlets specializing in sales to manufactured housing communities in addition to full service retail locations. Per location averages have been revised accordingly.

(8) A reconciliation of cash flows follows (in thousands):

	Three Months Ended		Twelve Month
	Dec. 28, 2002	Dec. 29, 2001	Dec. 28, 2002
Net loss	$ (5,483)	$ (4,811)	$ (255,555)
Adjustments:			
Depreciation and amortization	4,648	8,837	21,295
Goodwill impairment charges	-	-	97,000
Asset impairment charges, net	(900)	1,200	26,600
Refundable income taxes	(26,500)	377	(41,900)

Deferred tax valuation allowance	-	-	94,800
Changes in working capital	33,601	13,692	49,856
Other	(7,091)	(17,488)	6,415
Cash provided by (used for) operations	(1,725)	1,807	(1,489)
Increase in finance loans receivable	(24,700)	-	(53,559)
Other	3,565	(2,494)	(7,512)
Cash used for investing	(21,135)	(2,494)	(61,071)
Proceeds from Senior Notes	-	-	145,821
Inc (dec) in floor plan payable, net	7,967	2,835	(53,772)
Increase in restricted cash	(15,244)	-	(51,652)
Proceeds from warehouse facility	17,662	-	35,565
Preferred stock issuance, net	-	-	23,810
Repurchase of Senior Notes	-	-	(23,750)
Other	(2,500)	1,401	(5,537)
Cash provided by (used for) financing	7,885	4,236	70,485
Increase (decrease) in cash	(14,975)	3,549	7,925
Beginning cash and cash equivalents	92,356	65,907	69,456
Ending cash and cash equivalents	$ 77,381	$ 69,456	$ 77,381

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/ Phyllis A. Knight

Phyllis A. Knight,
Executive Vice President and
Chief Financial Officer

Date: February 12, 2003