

CHAMPION ENTERPRISES INC

Form 10-Q

October 28, 2005

**FORM 10-Q**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

(Mark one)

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

**For Quarterly period ended October 1, 2005**

**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  
(State or other jurisdiction of incorporation or  
organization)

38-2743168  
(I.R.S. Employer

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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  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes   
No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

75,945,602 shares of the registrant's \$1.00 par value Common Stock were outstanding as of October 27, 2005.

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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	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Net sales	\$ 335,728	\$ 276,949	\$ 897,103	\$ 754,167

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Cost of sales	277,819	226,590	746,357	630,757
<b>Gross margin</b>	<b>57,909</b>	<b>50,359</b>	<b>150,746</b>	<b>123,410</b>
Selling, general and administrative expenses	38,385	32,555	106,696	94,725
Mark-to-market charge (credit) for common stock warrant		2,300	(4,300)	3,500
Loss on debt retirement			901	2,776
<b>Operating income</b>	<b>19,524</b>	<b>15,504</b>	<b>47,449</b>	<b>22,409</b>
Interest income	980	470	2,682	954
Interest expense	(4,340)	(4,556)	(13,549)	(14,204)
<b>Income from continuing operations before income taxes</b>	<b>16,164</b>	<b>11,418</b>	<b>36,582</b>	<b>9,159</b>
Income tax expense (benefit)	950	800	1,850	(10,300)
<b>Income from continuing operations</b>	<b>15,214</b>	<b>10,618</b>	<b>34,732</b>	<b>19,459</b>
Loss from discontinued operations, net of taxes	(900)	(629)	(4,209)	(361)
<b>Net income</b>	<b>14,314</b>	<b>9,989</b>	<b>30,523</b>	<b>19,098</b>
<b>Basic income (loss) per share:</b>				
Income from continuing operations	\$ 0.20	\$ 0.14	\$ 0.45	\$ 0.25
Loss from discontinued operations	(0.01)	(0.01)	(0.06)	
Basic income per share	\$ 0.19	\$ 0.13	\$ 0.39	\$ 0.25
Weighted shares for basic EPS	75,837	71,300	74,520	70,020
<b>Diluted income (loss) per share:</b>				
Income from continuing operations	\$ 0.20	\$ 0.13	\$ 0.44	\$ 0.25
Loss from discontinued operations	(0.01)	(0.01)	(0.05)	(0.01)
Diluted income per share	\$ 0.19	\$ 0.12	\$ 0.39	\$ 0.24
Weighted shares for diluted EPS	76,886	72,522	75,559	71,610

See accompanying Notes to Consolidated Financial Statements.

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CHAMPION ENTERPRISES, INC.

Consolidated Balance Sheets

(In thousands, except par value)

	<b>Unaudited</b>	
	<b>October 1, 2005</b>	<b>January 1, 2005</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 131,059	\$ 142,266
Restricted cash	509	529
Accounts receivable, trade	52,246	22,119
Inventories	98,705	71,616
Current assets of discontinued operations	2,814	35,463

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Other current assets	14,738		13,535
Total current assets	300,071		285,528
<b>Property, plant and equipment</b>	213,365		207,216
Less-accumulated depreciation	122,811		126,259
	90,554		80,957
<b>Goodwill</b>	154,463		126,591
<b>Amortizable intangible assets</b>	4,050		
<b>Non-current assets of discontinued operations</b>	2,404		7,747
<b>Other non-current assets</b>	13,212		16,219
	\$ 564,754	\$	517,042
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 40,630	\$	13,819
Accrued warranty obligations	32,365		33,551
Accrued volume rebates	32,992		30,234
Accrued compensation and payroll taxes	25,412		19,659
Accrued self-insurance	28,565		25,988
Current liabilities of discontinued operations	3,661		23,411
Other current liabilities	39,166		29,696
Total current liabilities	202,791		176,358
<b>Long-term liabilities</b>			
Long-term debt	191,494		200,758
Long-term liabilities of discontinued operations	18		432
Other long-term liabilities	37,356		41,444
	228,868		242,634
<b>Contingent liabilities (Note 8)</b>			
<b>Redeemable convertible preferred stock,</b>			
no par value, 5,000 shares authorized, 0 shares			
and 21 shares issued and outstanding, respectively			20,750
<b>Shareholders equity</b>			
Common stock, \$1 par value, 120,000 shares authorized,			
75,939 and 72,358 shares issued and outstanding, respectively	75,939		72,358
Capital in excess of par value	186,070		164,377
Accumulated deficit	(129,145)	)	(159,375)
Accumulated other comprehensive income (loss)	231		(60)
Total shareholders equity	133,095		77,300
	\$ 564,754	\$	517,042

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

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	October 1,		October 2,
	2005		2004
<b>Cash flows from operating activities</b>			
Income from continuing operations	\$ 34,732		\$ 19,459
Adjustments to reconcile income from continuing operations to net cash provided by (used for) operating activities:			
Depreciation and amortization	7,726		7,765
Loss on debt retirement	901		2,776
Mark-to-market (credit) charge for common stock warrant	(4,300)	)	3,500
Gain on disposal of fixed assets	(1,625)	)	(154)
Decrease in allowance for tax adjustments			(12,000)
Increase/decrease			
Accounts receivable	(27,617)	)	(23,799)
Refundable income taxes			3,123
Inventories	(13,039)	)	(22,937)
Accounts payable	20,840		9,393
Accrued liabilities	12,848		7,962
Other, net	9,224		1,943
Net cash provided by (used for) continuing operating activities	39,690		(2,969)
<b>Cash flows from discontinued operations</b>			
Loss from discontinued operations	(4,209)	)	(361)
Proceeds from sales of retail businesses	30,649		
Change in net assets of discontinued operations			