

CHAMPION ENTERPRISES INC

Form 10-Q

August 04, 2004

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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 July 3, 2004

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 No

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

Yes No

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

71,281,060 shares of the registrant's \$1.00 par value Common Stock were outstanding as of August 2, 2004.

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Item 1. Financial Statements.

CHAMPION ENTERPRISES, INC.
 Consolidated Statements of Operations
 (In thousands, except per share amounts)

	Unaudited Three Months Ended		Unaudited Six Months Ended	
	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Net sales	\$306,106	\$295,653	\$543,191	\$538,450
Cost of sales	<u>252,495</u>	<u>246,471</u>	<u>454,979</u>	<u>456,927</u>
Gross margin	53,611	49,182	88,212	81,523
Selling, general and administrative expenses	41,357	43,219	77,780	91,882
Mark-to-market (credit) charge for common stock warrant	(3,900)		1,200	
(Gain) loss on debt retirement	<u>(450)</u>	<u>(7,130)</u>	<u>2,776</u>	<u>(13,833)</u>
Operating income	16,604	13,093	6,456	3,474
Interest income	338	339	678	886
Interest expense	<u>(4,890)</u>	<u>(7,179)</u>	<u>(10,261)</u>	<u>(14,863)</u>
Income (loss) from continuing operations before income taxes	12,052	6,253	(3,127)	(10,503)
Income tax (benefit) expense	<u>(11,400)</u>	<u>300</u>	<u>(11,100)</u>	<u>(2,400)</u>
Income (loss) from continuing operations	23,452	5,953	7,973	(8,103)
(Loss) income from discontinued operations, net of taxes	<u>(20)</u>	<u>(2,926)</u>	<u>1,136</u>	<u>(10,295)</u>
Net income (loss)	<u>\$ 23,432</u>	<u>\$ 3,027</u>	<u>\$ 9,109</u>	<u>\$ (18,398)</u>

Basic earnings (loss) per share:

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Income (loss) from continuing operations	\$ 0.31	\$ 0.10	\$ 0.10	\$ (0.22)
Income (loss) from discontinued operations	0.00	(0.05)	0.02	(0.18)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic earnings (loss) per share	\$ 0.31	\$ 0.05	\$ 0.12	\$ (0.40)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted shares for basic EPS	70,657	56,757	69,380	55,641
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	\$ 0.30	\$ 0.09	\$ 0.10	\$ (0.22)
Income (loss) from discontinued operations	0.00	(0.05)	0.01	(0.18)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Diluted earnings (loss) per share	\$ 0.30	\$ 0.04	\$ 0.11	\$ (0.40)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted shares for diluted EPS	72,253	61,624	71,152	55,641
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying Notes to Consolidated Financial Statements.

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

	Unaudited July 3, 2004	January 3, 2004
ASSETS		
Current assets		
Cash and cash equivalents	\$ 115,868	\$ 145,868
Restricted cash	631	8,341
Accounts receivable, trade	30,673	13,773
Inventories	119,104	98,824
Other current assets	19,381	18,325
Total current assets	285,657	285,131
Property, plant and equipment		
Less-accumulated depreciation	227,607	224,807
	134,083	128,986
	93,524	95,821
Goodwill	126,516	126,537
Non-current assets of discontinued operations	15	68
Other non-current assets	19,274	20,743
	\$ 524,986	\$ 528,300
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS EQUITY		
Current liabilities		
Floor plan payable	\$ 14,058	\$ 14,123
Accounts payable	33,806	26,724
Accrued warranty obligations	37,139	40,558
Accrued volume rebates	25,735	31,293
Accrued compensation and payroll taxes	19,403	17,400
Accrued self-insurance	30,703	31,189
Current liabilities of discontinued operations	190	3,173
Other current liabilities	42,526	47,184
Total current liabilities	203,560	211,644
Long-term liabilities		
Long-term debt	201,627	245,468
Other long-term liabilities	36,816	47,510

	238,443	292,978
Contingent liabilities (Note 8)		
Redeemable convertible preferred stock , no par value, 5,000 shares authorized, 21 shares and 9 shares issued and outstanding, respectively	20,750	8,689
Shareholders' equity		
Common stock, \$1 par value, 120,000 shares authorized, 71,059 and 65,470 shares issued and outstanding, respectively	71,059	65,470
Capital in excess of par value	158,503	125,386
Accumulated deficit	(166,760)	(175,450)
Accumulated other comprehensive loss	(569)	(417)
	<u>62,233</u>	<u>14,989</u>
Total shareholders' equity	<u>\$ 524,986</u>	<u>\$ 528,300</u>

See accompanying Notes to Consolidated Financial Statements.

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

	Unaudited Six Months Ended	
	July 3, 2004	June 28, 2003
Cash flows from operating activities		
Income (loss) from continuing operations	\$ 7,973	\$ (8,103)
Adjustments to reconcile income (loss) from continuing operations to net cash (used for) provided by operating activities:		
Depreciation and amortization	5,953	8,376
Loss (gain) on debt retirement	2,776	(13,833)
Mark-to-market charge for common stock warrant	1,200	
Gain on disposal of fixed assets	(713)	(1,834)
Decrease in allowance for tax adjustments	(12,000)	
Increase/decrease		
Accounts receivable	(16,900)	(17,459)
Refundable income taxes	376	60,749
Inventories	(20,280)	(9,092)
Cash collateral deposits		9,600
Accounts payable	7,082	8,280
Accrued liabilities	(10,485)	(8,597)
Other, net	2,291	5,218
	(32,727)	33,305
Cash flows from discontinued operations		
Income (loss) from discontinued operations	1,136	(10,295)
(Increase) decrease in net assets of discontinued operations	(2,983)	10,280
	(1,847)	(15)
Cash flows from investing activities		
Additions to property, plant and equipment	(4,130)	(3,055)
Acquisition deferred purchase price payments		(3,882)
Investments in and advances to unconsolidated subsidiaries	(109)	(343)
Proceeds on disposal of fixed assets	1,240	5,076
	(2,999)	(2,204)

Cash flows from financing activities

(Decrease) increase in floor plan payable, net	(65)	2,306
Proceeds from short-term borrowings		7,000
Decrease in other long-term debt	(6,029)	(326)
Purchase of Senior Notes	(10,395)	(35,830)
Increase in deferred financing costs		(1,942)
Decrease in restricted cash	7,710	50,229
Preferred stock issued, net	12,000	
Common stock issued, net	4,512	300
Dividends paid on preferred stock	(160)	(768)
	<u>7,573</u>	<u>20,969</u>
Net cash provided by financing activities		
	<u>7,573</u>	<u>20,969</u>
Net (decrease) increase in cash and cash equivalents	(30,000)	52,055
Cash and cash equivalents at beginning of period	145,868	77,381
	<u>145,868</u>	<u>77,381</u>
Cash and cash equivalents at end of period	<u>\$115,868</u>	<u>\$129,436</u>

See accompanying Notes to Consolidated Financial Statements.

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CHAMPION ENTERPRISES, INC.
Consolidated Statement of Shareholders' Equity
Unaudited Three Months Ended July 3, 2004
(In thousands)

	<u>Common stock</u>		<u>Capital in excess of par value</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Total</u>	<u>Total comprehensive income (loss)</u>
	<u>Shares</u>	<u>Amount</u>					
Balance at January 3, 2004	65,470	\$65,470	\$125,386	\$(175,450)	\$ (417)	\$14,989	
Net income				9,109		9,109	\$ 9,109
Preferred stock dividends	29	29	230	(419)		(160)	
Stock options and benefit plans	1,239	1,239	3,473			4,712	
Amortization of preferred stock issuance costs			(61)			(61)	
Issuance for acquisition deferred purchase price payments	469	469	3,531			4,000	
Issuance for purchase and retirement of debt	3,852	3,852	25,944			29,796	
Foreign currency translation adjustments					(152)	(152)	(152)
Balance at July 3, 2004	<u>71,059</u>	<u>\$71,059</u>	<u>\$158,503</u>	<u>\$(166,760)</u>	<u>\$ (569)</u>	<u>\$62,233</u>	<u>\$ 8,957</u>

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 decrease in the allowance for tax adjustments 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 of 2003 discussed in Note 7. 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 January 3, 2004 was derived from audited financial statements.

The Company exited its consumer finance business in 2003 and as a result that segment has been reported 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 January 3, 2004.

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 income (loss), income (loss) per share and stock-based compensation expense would have been the amounts indicated below:

	Three Months Ended	
	July 3, 2004	June 28, 2003
	(In thousands, except per share amounts)	
Net income as reported	\$ 23,432	\$ 3,027
Net income pro forma	23,404	2,542
Basic earnings per share as reported	0.31	0.05
Diluted earnings per share as reported	0.30	0.04
Basic earnings per share pro forma	0.30	0.04
Diluted earnings per share pro forma	0.30	0.03
Stock-based employee compensation expense, net of related tax effects as reported	185	187
Stock-based employee compensation expense, net of related tax effects pro forma	\$ 213	\$ 672

	Six Months Ended	
	July 3, 2004	June 28, 2003
	(In thousands, except per share amounts)	

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Net income (loss) as reported	\$ 9,109	\$ (18,398)
Net income (loss) pro forma	8,944	(19,602)
Basic earnings (loss) per share as reported	0.12	(0.40)
Diluted earnings (loss) per share as reported	0.11	(0.40)
Basic earnings (loss) per share pro forma	0.11	(0.42)
Diluted earnings (loss) per share pro forma	0.11	(0.42)
Stock-based employee compensation expense, net of related tax effects as reported	330	273
Stock-based employee compensation expense, net of related tax effects pro forma	\$ 495	\$ 1,477

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2. The following table provides information regarding activity for restructuring reserves recorded in previous periods.

	Six Months Ended July 3, 2004	
	2003 Closures	Prior Closures
	(In thousands)	
Balance at beginning of year	\$4,280	\$3,793
Cash payments:		
Warranty costs	(786)	(379)
Other closing costs	(638)	(250)
Reversals credited to earnings:		
Other closing costs	(119)	(65)
	<u> </u>	<u> </u>
Balance at July 3, 2004	<u>\$2,737</u>	<u>\$3,099</u>
Period end balance comprised of:		
Warranty costs	\$1,804	\$2,857
Other closing costs	933	242
	<u> </u>	<u> </u>
	<u>\$2,737</u>	<u>\$3,099</u>

Warranty costs are expected to be paid over a three-year period after the closures. Other closing costs are generally paid within one year of the related closures, though certain lease payments at abandoned retail locations are paid up to three years after the closures. Other closing costs credited to earnings during the six months ending July 3, 2004 consisted of adjustments to accruals for employee severance and lease terminations.

3. 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:

	Six Months Ended	
	July 3, 2004	June 28, 2003
	(In thousands)	
Statutory U.S. tax rate	\$ (1,100)	\$(3,700)
Increase in rate resulting from:		
Deferred tax valuation allowance	1,100	700
Decrease in allowance for tax adjustments	(12,000)	
State taxes, net of federal tax effect	200	

Other	700	600
	<u> </u>	<u> </u>
Total income tax benefit	\$(11,100)	\$(2,400)
	<u> </u>	<u> </u>

The Company currently provides 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. The Company has net operating losses incurred in 2003 totaling \$80 million that are available to offset certain future taxable income. The effective tax rates for the six months ended July 3, 2004 and June 28, 2003 differ from the 35% federal statutory rate, in part, because of this 100% valuation allowance. The 2004 tax rate was also affected by the decrease in the allowance for tax adjustments as a result of the finalization of certain tax examinations. The 2003 tax rate was also affected 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 of 2003. These refunds exceeded, by approximately \$3.0 million, the estimate made as of December 28, 2002, resulting in a \$3.0 million tax benefit which was recorded in the first quarter of 2003.

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4. A summary of inventories by component follows:

	July 3, 2004	January 3, 2004
	(In thousands)	
New manufactured homes	\$ 51,942	\$42,547
Raw materials	30,583	25,953
Work-in-process	7,361	6,204
Other inventory	29,218	24,120
	<u>\$119,104</u>	<u>\$98,824</u>

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

5. The Company's manufacturing operations generally 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 six months ended July 3, 2004. A portion of warranty reserves was classified as other long-term liabilities in the consolidated balance sheet.

	Accrued Warranty Obligations
	(In thousands)
Reserves at January 3, 2004	\$ 47,058
Warranty expense provided	24,302
Cash warranty payments	<u>(27,721)</u>
Reserves at July 3, 2004	<u>\$ 43,639</u>

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

	July 3, 2004	January 3, 2004
	(In thousands)	
7.625% Senior Notes due 2009	\$ 89,273	\$113,715
11.25% Senior Notes due 2007	97,510	111,010
Obligations under industrial revenue bonds	12,430	18,145

Other debt	2,414	2,598
	<u> </u>	<u> </u>
	\$201,627	\$245,468
	<u> </u>	<u> </u>

During the quarter ended July 3, 2004, the Company purchased and retired \$10.9 million of its Senior Notes due 2009 for cash payments of \$10.4 million, resulting in a pretax gain of \$0.5 million. During the first quarter of 2004, the Company purchased and retired \$13.5 million of the Senior Notes due 2009 and \$13.5 million of the Senior Notes due 2007 in exchange for Company common stock totaling 3.9 million shares, resulting in a pretax loss of \$3.2 million. Also during the first quarter of 2004, the Company repaid a \$5.7 million obligation under an industrial revenue bond. During the six months ended June 28, 2003 the Company purchased and retired \$35.6 million of its Senior Notes due 2009 and \$15.0 million of the Senior Notes due 2007 for cash payments of \$35.8 million, resulting in a pretax gain of \$13.8 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. 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. The line of credit is collateralized by accounts receivable, inventories, property, plant, and equipment, cash and other assets. As of July 3, 2004, facility availability was \$61.3 million, of which \$59.8 was used for letters of credit, there were no borrowings outstanding and the Company's liquidity was \$107.5 million, which was in excess of \$35 million such that no financial covenants were in effect.

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The Company has two floor plan facilities with total availability of \$19.6 million of which \$14.1 million was outstanding at July 3, 2004. A \$15 million floor plan financing facility contains a covenant requiring the maintenance of a minimum \$35 million of liquidity, as defined in the 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 July 3, 2004, the Company had approximately \$10.8 million outstanding under this facility and was in compliance with the covenant.

7. During the first quarter of 2004, the preferred shareholder exercised its right to purchase \$12 million of Series B-2 preferred stock. At July 3, 2004, redeemable convertible preferred stock consisted of \$8.75 million of Series C and \$12 million of Series B-2 with mandatory redemption dates of April 2, 2009 and July 3, 2008, respectively. Both Series have a 5% annual dividend that is payable quarterly, at the Company's option, in cash or common stock.

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 \$11.52 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 quarter and six months ended July 3, 2004, as a result of significant changes in the Company's common stock price, the Company recorded mark-to-market adjustments of a \$3.9 million credit and a \$1.2 million net charge, respectively, for the change in estimated fair value of this warrant.

8. 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, generally for a period of up to 24 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 July 3, 2004 was estimated to be approximately \$260 million, without reduction for the resale value of the homes. 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 for the six months ended July 3, 2004 and \$0.6 million for the six months ended June 28, 2003. During the first quarter of 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 July 3, 2004 the Company was contingently obligated for approximately \$60.1 million under letters of credit, primarily comprised of \$14.1 million to support insurance reserves, \$12.6 million to support long-term debt, \$27.7 million to secure surety bonds and \$5.0 million to support floor plan facilities of independent retailers. Champion was also contingently obligated for \$31.8 million under surety bonds, generally to support insurance and license and service bonding requirements. Approximately \$26.7 million 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 July 3, 2004 certain of the Company's subsidiaries were guarantors of \$5.7 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.

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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.

9. Earnings per share calculations for 2004 include an allocation of income to participating securities pursuant to the provisions of EITF 03-6, Participating Securities and the Two-Class Method under FASB Statement No. 128 as discussed in Note 13. Prior periods have been restated, as necessary, to conform.

The Company's potentially dilutive securities consist of outstanding stock options and awards, deferred purchase price obligations, convertible preferred stock and common stock warrants. Convertible preferred stock and common stock warrants were not considered in determining the denominator for diluted earnings per share (EPS) in any period presented because the effect would have been antidilutive. Outstanding stock options and deferred purchase price obligations were not considered in determining the denominator for diluted earnings per share (EPS) for the six months ended June 28, 2003 because the effect 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		Six Months Ended	
	July 3, 2004	June 28, 2003	July 3, 2004	June 28, 2003
Numerator				
Net income (loss)	\$23,432	\$ 3,027	\$ 9,109	\$(18,398)
Plus loss (less income) from discontinued operations	20	2,926	(1,136)	10,295
Less preferred stock dividend	(259)	(169)	(419)	(455)
Less amount allocated to participating securities holders	(1,618)	(217)	(489)	
Less charge to retained earnings for induced conversion of preferred stock				(3,488)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income (loss) from continuing operations available to common shareholders for basic and diluted EPS	21,575	5,567	7,065	(12,046)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(Loss) income from discontinued operations	(20)	(2,926)	1,136	(10,295)
Less amount allocated to participating securities			(73)	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
(Loss) income from discontinued operations available to common shareholders for basic and diluted EPS	(20)	(2,926)	1,063	(10,295)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Income (loss) available to common shareholders for basic and diluted EPS	\$21,555	\$ 2,641	\$ 8,128	\$(22,341)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Denominator				
Shares for basic EPS weighted average shares outstanding	70,657	56,757	69,380	55,641
Plus effect of dilutive securities				
Deferred purchase price obligations	610	4,811	758	
Stock options and awards	986	56	1,014	
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Shares for diluted EPS	72,253	61,624	71,152	55,641
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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10. The Company evaluates the performance of its manufacturing and retail segments based on earnings (loss) before interest, income taxes and general corporate expenses. Reconciliations of segment sales to consolidated net sales and segment income (loss) to consolidated income (loss) from continuing operations before income taxes follow:

	Three Months Ended	
	July 3, 2004	June 28, 2003
	(In thousands)	
Net sales		
Manufacturing	\$269,083	\$263,067
Retail	63,923	67,040
Less: intercompany	<u>(26,900)</u>	<u>(34,454)</u>
Consolidated net sales	<u>\$306,106</u>	<u>\$295,653</u>
Income from continuing operations before income taxes:		
Manufacturing segment income	\$ 17,567	\$ 13,003
Retail segment income (loss)	2,033	(737)
General corporate expenses	(6,846)	(6,449)
Mark-to-market credit for common stock warrant	3,900	
Gain on debt retirement	450	7,130
Interest expense, net	(4,552)	(6,840)
Intercompany eliminations	<u>(500)</u>	<u>146</u>
Income from continuing operations before income taxes	<u>\$ 12,052</u>	<u>\$ 6,253</u>
	Six Months Ended	
	July 3, 2004	June 28, 2003
	(In thousands)	
Net sales		
Manufacturing	\$478,939	\$472,264
Retail	113,752	128,161
Less: intercompany	<u>(49,500)</u>	<u>(61,975)</u>
Consolidated net sales	<u>\$543,191</u>	<u>\$538,450</u>

Loss from continuing operations before income taxes:		
Manufacturing segment income	\$ 22,221	\$ 6,157
Retail segment income (loss)	1,780	(3,420)
General corporate expenses	(12,869)	(13,721)
Mark-to-market charge for common stock warrant	(1,200)	
(Loss) gain on debt retirement	(2,776)	13,833
Interest expense, net	(9,583)	(13,977)
Intercompany eliminations	(700)	625
	<u> </u>	<u> </u>
Loss from continuing operations before income taxes	\$ (3,127)	\$ (10,503)
	<u> </u>	<u> </u>

Retail floor plan interest expense not charged to retail segment income (loss) totaled \$0.3 million and \$0.6 million for the three and six months ended July 3, 2004, respectively, and \$0.5 million and \$0.9 million for the three and six months ended June 28, 2003, respectively.

11. In 2003, the Company exited its consumer finance business. Income from discontinued operations for the six months ended July 3, 2004 consisted primarily of a favorable adjustment from the settlement of remaining contractual obligations. Loss from discontinued operations for the six months ended June 28, 2003 consisted primarily of a \$5.4 million charge to value its finance loans receivable at the lower of cost or market as well as operating losses.
12. Commencing July 2003, the Company engaged AlixPartners, LLC, a consulting firm, one of whose Principals, Albert A. Koch, served until July 31, 2004 as the Company's Chairman of the Board of Directors, President and Chief Executive Officer. During the three and six months ended July 3, 2004, the Company recorded expenses of \$1.4 million and \$1.8 million and paid fees of \$0.8 million and \$1.5 million, respectively, to AlixPartners, LLC and AP Services, LLC, its affiliate, 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.

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13. In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities. Under previous practice, entities were included in consolidated financial statements generally based on controlling voting interests or in other special situations. Under this Interpretation, certain previously unconsolidated entities (often referred to as special purpose entities) will be included in the consolidated financial statements of the primary beneficiary as a result of non-voting financial interests, which are established through contractual or other means. The adoption of Interpretation No. 46 by the Company in the first quarter of 2004 had no material impact on the Company s financial statements for the three and six months ended July 3, 2004.

In March 2004, the Emerging Issues Task Force (EITF) issued EITF Abstract 03-6, Participating Securities and the Two-Class method under FASB Statement No. 128 (EITF 03-6). EITF 03-6 requires the use of the two-class method of computing earnings per share for those enterprises with participating securities or multiple classes of common stock. Participating securities are those securities that may participate in dividends paid on common stock. Allocation of earnings is made according to a pre-determined formula with, at times, an upper limit on the extent of participation, regardless of whether earnings would actually be distributed and whether there are limitations on a company s ability to pay dividends. EITF 03-6 became effective on March 31, 2004. Prior periods have been restated, as necessary, to conform.

14. During the second quarter of 2004, the Company issued 29,000 shares of common stock in payment of preferred stock dividends totaling \$0.3 million. During the first quarter of 2004, the Company purchased and retired \$13.5 million of its Senior Notes due 2009 and \$13.5 million of its Senior Notes due 2007 in exchange for 3.9 million shares of Company common stock. In addition, during the three and six months ended July 3, 2004, the Company issued 193,000 shares and 469,000 shares, respectively, of common stock in payment of \$4.0 million of deferred purchase price obligations. During the three and six months ended June 28, 2003, the Company issued 328,000 and 970,000 shares, respectively, of common stock in payment of \$4.0 million of deferred purchase price obligations.
15. 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 100%-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 July 3, 2004

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
	(In thousands)					
Net sales	\$	\$77,307	\$243,679	\$12,020	\$(26,900)	\$306,106
Cost of sales		65,716	203,880	9,299	(26,400)	252,495
Gross margin		11,591	39,799	2,721	(500)	53,611
Selling, general and administrative expenses		10,550	29,058	1,749		41,357
Mark-to-market credit for common stock warrant	(3,900)					(3,900)
Gain on debt retirement	(450)					(450)
Operating income (loss)	4,350	1,041	10,741	972	(500)	16,604
Interest income	1,837	1,795	314	25	(3,633)	338
Interest expense	(1,837)	(2,692)	(3,994)		3,633	(4,890)
Income (loss) from continuing operations before income taxes	4,350	144	7,061	997	(500)	12,052
Income tax expense (benefit)		50	(11,950)	500		(11,400)
Income (loss) from continuing operations	4,350	94	19,011	497	(500)	23,452
Loss from discontinued operations			(15)	(5)		(20)
Income (loss) before equity in income (loss) of consolidated subsidiaries	4,350	94	18,996	492	(500)	23,432
Equity in income (loss) of consolidated subsidiaries	19,582	19,488			(39,070)	
Net income (loss)	\$23,932	\$19,582	\$18,996	\$492	\$(39,570)	\$23,432

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Six Months Ended July 3, 2004

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Net sales	\$	\$ 136,802	\$ 434,833	\$ 21,056	\$ (49,500)	\$ 543,191
Cost of sales		118,636	368,515	16,628	(48,800)	454,979
Gross margin		18,166	66,318	4,428	(700)	88,212
Selling, general and administrative expenses		14,592	60,010	3,178		77,780
Mark-to-market charge for common stock warrant	1,200					1,200
Loss on debt retirement	12	2,696	68			2,776
Operating (loss) income	(1,212)	878	6,240	1,250	(700)	6,456
Interest income	3,905	3,765	635	44	(7,671)	678
Interest expense	(3,905)	(5,666)	(8,360)	(1)	7,671	(10,261)
(Loss) income from continuing operations before income taxes	(1,212)	(1,023)	(1,485)	1,293	(700)	(3,127)
Income tax expense (benefit)		100	(11,900)	700		(11,100)
(Loss) income from continuing operations	(1,212)	(1,123)	10,415	593	(700)	7,973
Income (loss) from discontinued operations			1,153	(17)		1,136
(Loss) income before equity in income (loss) of consolidated subsidiaries	(1,212)	(1,123)	11,568	576	(700)	9,109
Equity in income (loss) of consolidated subsidiaries	11,021	12,144			(23,165)	
Net income (loss)	\$ 9,809	\$ 11,021	\$ 11,568	\$ 576	\$ (23,865)	\$ 9,109

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Balance Sheet
As of July 3, 2004

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
	(In thousands)					
Assets						
Current assets						
Cash and cash equivalents	\$	\$ 99,820	\$ 1,948	\$ 14,075	\$ 25	\$ 115,868
Restricted cash		422	209			631
Accounts receivable, trade		11,270	28,174	1,037	(9,808)	30,673
Inventories		15,296	100,602	2,656	550	119,104
Other current assets		10,581	100,433	924	(92,557)	19,381
		<u>137,389</u>	<u>231,366</u>	<u>18,692</u>	<u>(101,790)</u>	<u>285,657</u>
Property, plant and equipment, net						
		27,072	64,445	2,007		93,524
Goodwill			125,783	733		126,516
Investment in consolidated subsidiaries	16,240	312,284	138,902	6,815	(474,241)	
Non-current assets of discontinued operations			15			15
Other non-current assets	776	3,466	6,342	8,690		19,274
	<u>\$ 17,016</u>	<u>\$ 480,211</u>	<u>\$ 566,853</u>	<u>\$ 36,937</u>	<u>\$ (576,031)</u>	<u>\$ 524,986</u>
Liabilities, Redeemable Convertible Preferred Stock and Shareholders Equity						
Current liabilities						
Floor plan payable	\$	\$	\$ 14,058	\$	\$	\$ 14,058
Accounts payable		9,663	24,219	2,007	(2,083)	33,806
Accrued warranty obligations		7,398	28,910	831		37,139
Accrued volume rebates		7,992	16,220	1,523		25,735
Current liabilities of discontinued operations			190			190
Other current liabilities	841	120,180	64,063	245	(92,697)	92,632

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Total current liabilities	<u>841</u>	<u>145,233</u>	<u>147,660</u>	<u>4,606</u>	<u>(94,780)</u>	<u>203,560</u>
Long-term liabilities						
Long-term debt	89,273	104,944	7,410			201,627
Other long-term liabilities	<u>4,501</u>	<u>8,210</u>	<u>23,975</u>	<u>130</u>		<u>36,816</u>
	<u>93,774</u>	<u>113,154</u>	<u>31,385</u>	<u>130</u>		<u>238,443</u>
Intercompany balances	(153,373)	(41,119)	525,814	4,283	(335,605)	
Redeemable convertible preferred stock	20,750					20,750
Shareholders' equity						
Common stock	71,059	1	59	4	(64)	71,059
Capital in excess of par value	158,503	613,336	275,175	32,727	(921,238)	158,503
Accumulated deficit	(174,538)	(350,394)	(413,240)	(4,244)	775,656	(166,760)
Accumulated other comprehensive loss				(569)		(569)
Total shareholders' equity	<u>55,024</u>	<u>262,943</u>	<u>(138,006)</u>	<u>27,918</u>	<u>(145,646)</u>	<u>62,233</u>
	<u>\$ 17,016</u>	<u>\$ 480,211</u>	<u>\$ 566,853</u>	<u>\$ 36,937</u>	<u>\$ (576,031)</u>	<u>\$ 524,986</u>

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Cash Flows
For the Six Months Ended July 3, 2004

	<u>Parent</u>	<u>CHB</u>	<u>Guarantor Subsidiaries</u>	<u>Non-guarantor Subsidiaries</u>	<u>Consolidating Eliminations</u>	<u>Consolidated</u>
	(In thousands)					
Net cash provided by (used for) operating activities	\$ 1,167	\$ (27,772)	\$ (8,004)	\$ 1,997	\$ (115)	\$ (32,727)
Net cash used for discontinued operations			(1,830)	(17)		(1,847)
Cash flows from investing activities						
Additions to property plant and equipment		(804)	(3,175)	(151)		(4,130)
Investments in and advances to unconsolidated subsidiaries				(109)		(109)
Investments in and advances to consolidated subsidiaries	(7,124)	(576)	8,199	(639)	140	
Proceeds on disposal of fixed assets		12	1,177	51		1,240
Net cash (used for) provided by investing activities	(7,124)	(1,368)	6,201	(848)	140	(2,999)
Cash flows from financing activities						
Decrease in floor plan payable, net			(36)	(29)		(65)
Decrease in other long-term debt			(6,029)			(6,029)
Purchase of Senior Notes	(10,395)					(10,395)
(Increase) decrease in restricted cash		(112)	7,822			7,710
Preferred stock issued, net	12,000					12,000
Common stock issued, net	4,512					4,512
Dividends paid on preferred stock	(160)					(160)
Net cash provided by (used for) financing activities	5,957	(112)	1,757	(29)		7,573

	_____	_____	_____	_____	_____	_____
Net (decrease) increase in cash and cash equivalents		(29,252)	(1,876)	1,103	25	(30,000)
Cash and cash equivalents at beginning of period		129,072	3,824	12,972		145,868
	_____	_____	_____	_____	_____	_____
Cash and cash equivalents at end of period	\$	\$ 99,820	\$ 1,948	\$14,075	\$ 25	\$115,868
	_____	_____	_____	_____	_____	_____

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Three Months Ended June 28, 2003

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Net sales	\$	\$ 60,793	\$257,258	\$ 11,577	\$(33,975)	\$295,653
Cost of sales		52,233	219,856	8,982	(34,600)	246,471
Gross margin		8,560	37,402	2,595	625	49,182
Selling, general and administrative expenses		9,603	32,100	1,516		43,219
Gain on debt retirement	(7,130)					(7,130)
Operating income (loss)	7,130	(1,043)	5,302	1,079	625	13,093
Interest income	2,780	2,951	385	9	(5,786)	339
Interest expense	(2,780)	(3,874)	(6,307)	(4)	5,786	(7,179)
Income (loss) from continuing operations before income taxes	7,130	(1,966)	(620)	1,084	625	6,253
Income tax expense (benefit)	403	(9,521)	10,423	(1,005)		300
Income (loss) from continuing operations	6,727	7,555	(11,043)	2,089	625	5,953
Loss from discontinued operations			(702)	(478)	(1,746)	(2,926)
Income (loss) before equity in (loss) income of consolidated subsidiaries	6,727	7,555	(11,745)	1,611	(1,121)	3,027
Equity in (loss) income of Consolidated subsidiaries	(2,579)	(10,134)			12,713	
Net income (loss)	\$ 4,148	\$ (2,579)	\$ (11,745)	\$ 1,611	\$ 11,592	\$ 3,027

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Six Months Ended June 28, 2003

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
			(In thousands)			
Net sales	\$	\$ 109,935	\$ 470,398	\$ 20,092	\$ (61,975)	\$ 538,450
Cost of sales		97,258	406,120	16,149	(62,600)	456,927
Gross margin		12,677	64,278	3,943	625	81,523
Selling, general and administrative expenses		20,481	68,640	2,761		91,882
Gain on debt retirement	(12,555)	(1,278)				(13,833)
Operating income (loss)	12,555	(6,526)	(4,362)	1,182	625	3,474
Interest income	5,886	5,944	911	98	(11,953)	886
Interest expense	(5,886)	(7,856)	(13,057)	(17)	11,953	(14,863)
Income (loss) from continuing operations before income taxes	12,555	(8,438)	(16,508)	1,263	625	(10,503)
Income tax expense (benefit)	403	(9,521)	7,423	(705)		(2,400)
Income (loss) from continuing operations (Loss) income from discontinued operations	12,152	1,083	(23,931)	1,968	625	(8,103)
			(7,580)	98	(2,813)	(10,295)
Income (loss) before equity in income (loss) of consolidated subsidiaries	12,152	1,083	(31,511)	2,066	(2,188)	(18,398)
Equity in (loss) income of Consolidated subsidiaries	(28,362)	(29,445)			57,807	
Net (loss) income	\$ (16,210)	\$ (28,362)	\$ (31,511)	\$ 2,066	\$ 55,619	\$ (18,398)

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Balance Sheet
As of January 3, 2004

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
(In thousands)						
Assets						
Current assets						
Cash and cash equivalents	\$	\$ 129,072	\$ 3,824	\$ 12,972	\$	\$ 145,868
Restricted cash		310	8,031			8,341
Accounts receivable, trade		5,952	13,229	892	(6,300)	13,773
Inventories		11,862	85,182	1,930	(150)	98,824
Other current assets		17,900	92,872	415	(92,862)	18,325
		<u>165,096</u>	<u>203,138</u>	<u>16,209</u>	<u>(99,312)</u>	<u>285,131</u>
Total current assets		<u>165,096</u>	<u>203,138</u>	<u>16,209</u>	<u>(99,312)</u>	<u>285,131</u>
Property, plant and equipment, net						
		27,913	65,831	2,077		95,821
Goodwill			125,783	754		126,537
Investment in consolidated subsidiaries	18,441	315,730	110,039	6,866	(451,076)	
Non-current assets of discontinued operations			68			68
Other non-current assets	1,095	9,067	1,809	8,772		20,743
	<u>19,536</u>	<u>517,806</u>	<u>506,668</u>	<u>34,678</u>	<u>(550,388)</u>	<u>528,300</u>
Liabilities, Redeemable Convertible Preferred Stock and Shareholders' Equity						
Current liabilities						
Floor plan payable	\$	\$	\$ 14,094	\$ 29	\$	\$ 14,123
Accounts payable		6,774	19,273	777	(100)	26,724
Accrued warranty obligations		10,926	28,858	774		40,558
Accrued volume rebates		9,580	19,841	1,872		31,293
Current liabilities of discontinued operations			3,177	(4)		3,173
Other current liabilities	1,078	138,008	48,764	685	(92,762)	95,773

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Total current liabilities	<u>1,078</u>	<u>165,288</u>	<u>134,007</u>	<u>4,133</u>	<u>(92,862)</u>	<u>211,644</u>
Long-term liabilities						
Long-term debt	113,715	118,444	13,309			245,468
Other long-term liabilities	<u>3,300</u>	<u>34,417</u>	<u>9,659</u>	<u>134</u>		<u>47,510</u>
	<u>117,015</u>	<u>152,861</u>	<u>22,968</u>	<u>134</u>		<u>292,978</u>
Intercompany balances	(113,635)	(41,151)	487,574	2,959	(335,747)	
Redeemable convertible preferred stock	8,689					8,689
Shareholders equity						
Common stock	65,470	1	59	4	(64)	65,470
Capital in excess of par value	125,386	613,336	273,160	34,740	(921,236)	125,386
Accumulated deficit	(184,467)	(372,529)	(411,100)	(6,875)	799,521	(175,450)
Accumulated other comprehensive loss				(417)		(417)
Total shareholders equity	<u>6,389</u>	<u>240,808</u>	<u>(137,881)</u>	<u>27,452</u>	<u>(121,779)</u>	<u>14,989</u>
	<u>\$ 19,536</u>	<u>\$ 517,806</u>	<u>\$ 506,668</u>	<u>\$34,678</u>	<u>\$(550,388)</u>	<u>\$ 528,300</u>

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CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 28, 2003

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consolidating Eliminations	Consolidated
	(In thousands)					
Net cash provided by (used for)						
Continuing operating activities	\$ 2,213	\$ 76,825	\$(47,411)	\$ 865	\$ 813	\$ 33,305
Net (cash used) provided by for discontinued operations			(7,786)	8,584	(813)	(15)
Cash flows from investing activities						
Acquisition deferred purchase price Payments			(3,882)			(3,882)
Additions to property, plant and equipment		(418)	(2,442)	(195)		(3,055)
Investments in and advances to unconsolidated subsidiaries				(343)		(343)
Investments in and advances to consolidated subsidiaries	20,854	(67,913)	58,431	(11,372)		
Proceeds on disposal of fixed assets		694	2,782	1,600		5,076
Net cash provided by (used for) investing activities	20,854	(67,637)	54,889	(10,310)		(2,204)
Cash flows from financing activities						
Increase (decrease) in floor plan payable, net			2,594	(288)		2,306
Decrease in other long-term debt		(83)	(198)	(45)		(326)
Proceeds from short-term borrowings		7,000				7,000
Purchase of Senior Notes	(22,599)	(13,231)				(35,830)
Increase in deferred financing costs		(2,342)	400			(1,942)
Decrease in restricted cash		49,174	550	505		50,229
Common stock issued, net	300					300

Dividends paid on preferred stock	<u>(768)</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>(768)</u>
Net cash provided by (used for) financing activities	<u>(23,067)</u>	<u>40,518</u>	<u>3,346</u>	<u>172</u>	<u> </u>	<u>20,969</u>
Net increase (decrease) in cash and cash equivalents		49,706	3,038	(689)		52,055
Cash and cash equivalents at beginning of period	<u> </u>	<u>68,628</u>	<u>(1,913)</u>	<u>10,666</u>	<u> </u>	<u>77,381</u>
Cash and cash equivalents at end of period	<u>\$</u>	<u>\$118,334</u>	<u>\$ 1,125</u>	<u>\$ 9,977</u>	<u>\$</u>	<u>\$129,436</u>

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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 Six Months Ended July 3, 2004
versus the Three and Six Months Ended June 28, 2003

Overview

We are a leading producer of manufactured housing in the United States. As of July 3, 2004, we operated 29 homebuilding facilities in 14 states and two provinces in western Canada. At July 3, 2004, our manufactured homes were sold through 79 Company-owned sales centers in 21 states, through approximately 2,400 independent sales centers across the U.S. and western Canada and directly to an estimated 500 builders and developers. More than 800 of the independent retailer locations were members of our Champion Home Centers (CHC) retail distribution network.

Our results for the second quarter of 2004 showed improvements in the manufacturing and retail segments as compared to results in the second quarter of 2003, largely as a result of our restructuring actions in 2003 and prior years to eliminate under-performing operations and rationalize our operations and capacity in light of industry conditions. Since the industry downturn began in mid-1999, we have closed and consolidated 39 manufacturing facilities, including one in 2004 and seven in 2003. Since mid-2000 we have closed 276 retail sales locations, including 40 in 2003.

Our pretax income from continuing operations in the second quarter of 2004 increased by \$5.8 million over the second quarter of 2003, with manufacturing and retail segment income improving by \$4.6 million and \$2.8 million, respectively, and net interest expense was lower by \$2.3 million. Second quarter 2004 results were favorably affected by a \$3.9 million mark-to-market credit related to our outstanding common stock warrant and by the \$12.0 million decrease in our allowance for tax adjustments. The second quarter 2004 gain on debt retirement of \$0.5 million was \$6.7 million less than debt retirement gains recorded in the second quarter of 2003.

During the six months ended July 3, 2004, we continued to focus on improving our financial position and reducing debt. During the first six months, we purchased and retired \$37.9 million of our Senior Notes in exchange for payments of our common stock totaling 3.9 million shares and cash totaling \$10.4 million, resulting in a net pretax loss of \$2.8 million. We also repaid a \$5.7 million industrial revenue bond. Since the beginning of 2003, we have reduced indebtedness by \$178.7 million.

During the second quarter of 2004, our sales and operating results continued to be affected by challenging industry conditions including limited availability of consumer financing and floor plan inventory financing and high sales levels of homes repossessed from consumers. Industry retail sales and manufacturing shipments of new homes declined as a result of reduced levels of available financing and the high number of repossessed homes that were in the market. According to data reported by the Institute for Building Technology and Safety, U.S. industry manufacturing shipments of HUD code homes for the first five months of 2004 declined 4.9% from shipments in the comparable 2003 period. U.S. industry manufacturing shipments of HUD code homes in the full year of 2003 were 62% lower than in 1999, before the current downturn began.

The industry's U.S. manufacturing shipments and retail sales of new homes in 2004 are expected to suffer from the factors described above. We expect our manufacturing and retail sales volumes and margins to continue to be affected until competitively priced consumer financing is more readily available, consumer repossession levels decline

and retail sales of new homes increase. We are focusing on matching our manufacturing capacity and number of Company-owned retail sales centers to industry conditions, improving or eliminating under-performing manufacturing facilities and retail sales centers, improving independent and Company-owned retailer inventory turnover, rewarding independent retailers for retail selling of homes purchased from our manufacturers and promoting sound business practices at our independent retailers. We are seeking additional sources of consumer lending for our retailers. We also seek to expand our manufacturers' distribution network. We continually review our manufacturing capacity and the number and locations of Company-owned retail sales centers and will make further adjustments as deemed necessary.

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	Three Months Ended		% Change
	July 3, 2004	June 28, 2003	
	(Dollars in millions)		
Net sales			
Manufacturing	\$269.1	\$263.1	2%
Retail	63.9	67.0	(5%)
Less: Intercompany	(26.9)	(34.4)	
Total net sales	\$306.1	\$295.7	4%
Gross margin	\$ 53.6	\$ 49.2	9%
Selling, general and administrative expenses (SG&A)	41.4	43.2	(4%)
Mark to market credit for common stock warrant	(3.9)		
Gain on debt retirement	(0.5)	(7.1)	
Operating income	\$ 16.6	\$ 13.1	27%
As a percent of net sales			
Gross margin	17.5%	16.6%	
SG&A	13.5%	14.6%	
Operating income	5.4%	4.4%	
	Six Months Ended		% Change
	July 3, 2004	June 28, 2003	
	(Dollars in millions)		
Net Sales			
Manufacturing	\$478.9	\$472.3	1%
Retail	113.8	128.2	(11%)
Less: Intercompany	(49.5)	(62.0)	
Total net sales	\$543.2	\$538.5	1%
Gross margin	\$ 88.2	\$ 81.5	8%

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Selling, general and administrative expenses (SG&A)	77.8	91.8	(15%)
Mark to market charge for common stock warrant	1.2		
Loss (gain) on debt retirement	2.7	(13.8)	
	<u> </u>	<u> </u>	
Operating income	\$ 6.5	\$ 3.5	86%
	<u> </u>	<u> </u>	
As a percent of net sales			
Gross margin	16.2%	15.1%	
SG&A	14.3%	17.1%	
Operating income	1.2%	0.6%	

Net sales for the quarter and year to date periods ended July 3, 2004 increased from the comparable periods in 2003 due primarily to increased selling prices per home and changes in mix, partially offset by lower sales volume as a result of operating fewer retail sales centers and manufacturing facilities. At July 3, 2004, we were operating 29 manufacturing facilities and 79 sales centers compared to 34 manufacturing facilities and 115 sales centers at June 28, 2003. Sales in the first six months of 2004 and 2003 were affected by industry conditions including limited availability of consumer financing and floor plan inventory financing and continuing high sales levels of consumer repossessions.

Gross margin for the three and six months ended July 3, 2004 increased \$4.4 million and \$6.7 million, respectively, from the comparable periods of 2003, due primarily to improved manufacturing gross profit from production efficiencies and reduced overhead costs resulting from the closure of under-performing plants in 2003, partially offset by lower retail gross margin from lower retail sales.

SG&A for the three and six months ended July 3, 2004 decreased \$1.9 million and \$14.1 million, respectively, from the comparable periods of 2003, primarily due to the operation of, on average, 16% fewer manufacturing facilities and 33% fewer sales centers.

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During the quarter and six months ended July 3, 2004, as a result of significant changes in the Company's common stock price, the Company recorded mark-to-market adjustments of a \$3.9 million credit and a \$1.2 million net charge, respectively, for the change in estimated fair value of our outstanding common stock warrants. During the three months ended July 3, 2004, operating results included a gain of \$0.5 million from the purchase and retirement of \$10.9 million of Senior Notes for cash payments totaling \$10.4 million. During the six months ended July 3, 2004, operating results included a net loss of \$2.8 million for the purchase and retirement of \$37.9 million of Senior Notes in exchange for 3.9 million shares of Company common stock and \$10.4 million of cash. During the second quarter of 2003, operating results included a \$7.1 million gain on extinguishment of debt from the purchase and retirement of \$22.7 million of Senior Notes for \$15.3 million of cash. During the first half of 2003, operating results included a gain of \$13.8 million from the purchase and retirement of \$50.6 million of Senior Notes for cash totaling \$35.8 million.

Manufacturing Operations

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

	Three Months Ended		
	July 3, 2004	June 28, 2003	% Change
Manufacturing segment net sales (in millions)	\$ 269.1	\$ 263.1	2%
Manufacturing segment income (in millions)	\$ 17.6	\$ 13.0	35%
Manufacturing segment margin %	6.5%	4.9%	
Homes sold	6,354	6,925	(8%)
Floors sold	12,037	13,131	(8%)
Multi-section mix	83%	85%	
Average home price, excluding delivery	\$40,800	\$36,500	12%
	Six Months Ended		
	July 3, 2004	June 28, 2003	% Change
Manufacturing segment net sales (in millions)	\$ 478.9	\$ 472.3	1%
Manufacturing segment income (in millions)	\$ 22.2	\$ 6.2	261%
Manufacturing segment margin %	4.6%	1.3%	
Homes sold	11,359	12,596	(10%)
Floors sold	21,761	23,849	(9%)
Multi-section mix	85%	84%	
Average home price, excluding delivery	\$40,700	\$36,100	13%
Manufacturing facilities at period end	29	34	(15%)

Manufacturing net sales for the quarter ended July 3, 2004 increased slightly compared to the second quarter of 2003 resulting from a 12% increase in the average home selling price partially offset by selling 8% fewer homes. We were operating 15% fewer manufacturing facilities at the end of the second quarter of 2004 versus 2003. For the quarter ended July 3, 2004, our shipments of HUD code homes declined 15% and our shipments of non-HUD code homes, consisting primarily of modular and Canadian code homes, increased by 23% as compared to shipments in the

second quarter of 2003. Year-to-date manufacturing sales volume was affected by operating fewer manufacturing facilities, selling to a reduced number of Company-owned retail sales centers and the negative effects of current industry conditions. Average manufacturing selling prices increased in the 2004 second quarter as compared to the year ago quarter, despite a lower multi-section mix, as a result of selling a greater proportion of modular homes and increasing prices to offset rising material costs.

Manufacturing segment income in the second quarter of 2004 increased by \$4.6 million, or 35%, over the second quarter of 2003 on 2% growth in sales while operating five fewer plants. Manufacturing gross margin improved by \$6.0 million primarily due to production efficiencies and reduced manufacturing overhead costs resulting from the closure of under-performing plants in 2003. In the second quarter of 2004, manufacturing SG&A increased by \$1.5 million despite operating fewer plants due to increased sales and marketing costs. In addition, 2003 SG&A included a gain of \$0.8 million from the sale of a closed plant. For the six months ended July 3, 2004, segment income improved by \$16.0 million resulting from an increase of \$11.6 million in gross profit and lower SG&A expenses. Reduced SG&A expenses resulted from operating fewer plants in 2004 and a \$3.2 million charge in 2003 to increase repurchase reserves, offset partially by higher sales and marketing costs in 2004 and a gain of \$1.6 million in 2003

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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 homes at July 3, 2004 totaled approximately \$90 million at the 29 plants operated, compared to \$48 million at 34 plants operated at June 28, 2003.

Retail Operations

We evaluate the performance of our retail segment based on earnings (loss) before interest, income taxes and general corporate expenses.

	Three Months Ended		
	July 3, 2004	June 28, 2003	% Change
Retail segment net sales (in millions)	\$ 63.9	\$ 67.0	(5%)
Retail segment income (loss) (in millions)	\$ 2.0	\$ (0.7)	376%
Retail segment margin %	3.2%	(1.1%)	
New homes sold	623	821	(24%)
Pre-owned homes sold	287	292	(2%)
Total homes sold	910	1,113	(18%)
% Champion-produced new homes sold	89%	93%	
New home multi-section mix	90%	85%	
Average new home price	\$95,500	\$75,400	27%
Average number of new homes sold per sales center per month	2.6	2.3	13%
Average number of total homes sold per sales center per month	3.9	3.2	21%

	Six Months Ended		
	July 3, 2004	June 28, 2003	% Change
Retail segment net sales (in millions)	\$ 113.8	\$ 128.2	(11%)
Retail segment income (loss) (in millions)	\$ 1.8	\$ (3.4)	152%
Retail segment margin %	1.6%	(2.7%)	
New homes sold	1,105	1,598	(31%)
Pre-owned homes sold	591	600	(2%)
Total homes sold	1,696	2,198	(23%)
% Champion-produced new homes sold	90%	95%	
New home multi-section mix	91%	84%	
Average new home price	\$94,600	\$73,900	28%
Average number of new homes sold per sales center per month	2.4	2.3	2%
Average number of total homes sold per sales center per month	3.6	3.1	16%
Average number of new homes in inventory per sales center at period end	13.3	14.7	(10%)
Sales centers at period end	79	115	(31%)

Retail sales for the three and six months ended July 3, 2004 decreased 5% and 11%, respectively, versus the comparable periods last year due to selling less homes as a result of operating fewer sales centers, partially offset by a higher average selling price per home. During the second quarter of 2004, we operated an average of 78.5 sales centers, 33% lower than the average of 116.5 sales centers operated in the second quarter of 2003. The average number of total homes sold per sales center improved for the quarter and year-to-date periods of 2004 primarily as a result of selling more repossessed homes purchased from finance companies. The 27% increase in average new home selling price resulted from the sale of a greater proportion of larger, higher-priced multi-section homes, including modular homes, and homes with more add-ons, improvements and amenities. Additionally, our retail operations have increased selling prices to offset increasing prices from the manufacturers due to rising material costs.

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Retail segment income (loss) for the three and six months ended July 3, 2004 improved by \$2.8 million and \$5.2 million, respectively, compared to the same periods in 2003 primarily due to reduced SG&A from operating fewer sales centers in 2004 partially offset by the impact of reduced sales. In addition, 2004 second quarter results include a \$0.6 million gain from the sale of a closed sales center.

Discontinued Operations

In 2003, we exited our consumer finance business. Income from discontinued operations for the six months ended July 3, 2004 consisted primarily of a favorable adjustment from the settlement of remaining contractual obligations during the first quarter. Losses for the six months ended June 28, 2003 consisted primarily of a \$5.4 million charge to value our finance loans receivable at the lower of cost or market as well as operating losses.

Restructuring Charges

In the second quarter of 2004, we closed one manufacturing facility and during the six months ended June 28, 2003 we closed three manufacturing facilities and three retail sales centers but incurred no significant restructuring costs. As of July 3, 2004, accrued but unpaid restructuring costs totaled \$5.8 million compared to \$6.8 million at April 3, 2004 and \$8.1 million at January 3, 2004, primarily consisting of warranty reserves for closed manufacturing plants.

Interest Expense

Interest expense decreased by \$2.3 million and \$4.6 million for the three and six months ended July 3, 2004, respectively, versus comparable periods in 2003 due to reduced debt outstanding under our Senior Notes due 2007 and 2009 and the retirement of an industrial revenue bond in 2004.

Income Taxes

We currently provide a 100% valuation allowance for our deferred tax assets. Deferred tax assets will continue to require a 100% valuation allowance until we have demonstrated their realizability through sustained profitability and/or from other factors. We have net operating losses incurred in 2003 totaling \$80 million that are available to offset certain future taxable income. The effective tax rate for the six months ended July 3, 2004 differs from the 35% federal statutory rate, in part, because of this 100% valuation reserve. The 2004 rate was also affected by the \$12 million decrease in the allowance for tax adjustments as a result of the finalization of certain tax examinations.

During the six months ended June 28, 2003, a tax benefit of \$3.0 million was recorded for the related reduction in the 100% valuation allowance resulting from refunds totaling \$63.5 million, received during the second quarter of 2003, exceeding the estimate made as of December 28, 2002 by approximately \$3.0 million.

Contingent Repurchase Obligations

We are contingently obligated under repurchase agreements with certain lending institutions that provide floor plan financing to our independent retailers. We use information, which is generally available only from the primary national floor plan lenders, to estimate our contingent repurchase obligations. With the exit of certain national floor plan lenders from the industry and the shift to alternative inventory financing sources, this estimate of our contingent repurchase obligation may not be precise. At July 3, 2004, we estimate our contingent repurchase obligation was approximately \$260.0 million, before reduction for the resale value of the homes. As of July 3, 2004, our largest independent retailer, a nationwide retailer, had approximately \$10.4 million of inventory subject to repurchase for up to 30 months from date of invoice. As of July 3, 2004, our next 24 largest independent retailers had an aggregate of

approximately \$44.6 million of inventory subject to repurchase for up to 24 months from date of invoice, with individual amounts ranging from approximately \$0.6 million to \$5.9 million per retailer. For the six months ended July 3, 2004, we paid \$0.7 million to repurchase 23 homes and recorded related losses of \$0.2 million. In the same period last year, we paid \$3.4 million and incurred losses of \$0.6 million related to the repurchase of 100 homes. Our estimated contingent repurchase obligation has declined during the industry downturn due to reduced sales and inventory at our independent retailers and due to an estimated 60% of independent retailer inventory being financed away from the primary national floor plan lenders. We do not always enter into repurchase agreements with these alternative floor plan lenders. During the first quarter of 2003, wholesale repurchase reserves were increased \$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, we agreed to extend both repurchase terms and the timing of required principal curtailment payments by this independent retailer to certain floor plan lenders resulting in a slightly higher repurchase exposure

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for a longer period of time.

Liquidity and Capital Resources

Unrestricted cash balances totaled \$115.9 million at July 3, 2004. For the six months ended July 3, 2004, net cash of \$32.7 million was used for operating activities, including \$30.1 million invested in working capital. During the period, accounts receivable increased by \$16.9 million, inventories increased by \$20.3 million and accounts payable increased by \$7.1 million as a result primarily of typical seasonal factors in our business related to our stronger selling months. Cash provided during the period included \$12.0 million from issuance of convertible preferred stock, \$4.5 million from stock option exercises, \$1.2 million from the disposal of fixed assets and \$7.7 million from decreases in restricted cash balances. Cash uses during the period included \$4.1 million for capital expenditures, \$10.4 million for the purchase of Senior Notes due 2009 and \$6.0 million to reduce other long-term debt, primarily to repay an industrial revenue bond. Also during the period we purchased and retired \$13.5 million of our Senior Notes due 2009 and \$13.5 million of our Senior Notes due 2007 in exchange for 3.9 million shares of the Company's common stock.

We have a committed \$75 million revolving credit facility for letters of credit and general corporate purposes. This facility expires in January 2006. Availability under this credit facility is limited to a borrowing base, and is collateralized by accounts receivable, inventories, property, plant and equipment, cash and other assets. As of July 3, 2004, facility availability was \$61.3 million of which \$59.8 was used for letters of credit. We expect to continue to utilize availability under this facility principally for letters of credit. The facility contains financial covenants that are in effect only in the event that our liquidity, as defined, falls below \$35 million. These covenants include required earnings, as defined, of \$45.2 million and a required ratio of earnings to fixed charges, as defined, of 1.0 to 1 for each 12 month period ending on a fiscal quarter. For the 12 months ended July 3, 2004, our earnings, as defined, were \$20.5 million and our ratio of earnings to fixed charges was 0.5 to 1. At July 3, 2004, our liquidity, as defined, was \$107.5 million, which was in excess of \$35 million such that these financial covenants were not in effect. We expect over the next 12 months to maintain liquidity at or in excess of the \$35 million threshold. Thus, while our operating results may continue to be below the required levels of earnings and ratios of earnings to fixed charges, these covenant requirements are not expected to be in effect.

We continuously evaluate the most efficient use of our capital, including without limitation, purchasing, refinancing or otherwise retiring our outstanding indebtedness, debt exchanges, restructuring of obligations, financings, and issuances of securities, whether in the open market or by other means and to the extent permitted by our financing arrangements. We will evaluate any such transaction in light of then existing market conditions. The amounts involved in any such transactions, individually or in the aggregate, may be material.

The debt incurrence covenant in the indenture governing the Senior Notes due 2007 currently limits additional debt to: i) a working capital line of credit up to a borrowing base equal to 60% of otherwise unencumbered inventories and 75% of otherwise unencumbered accounts receivable; ii) warehouse financing meeting certain parameters up to \$200 million; iii) other debt up to \$30 million; and iv) ordinary course indebtedness and contingent obligations that includes non-speculative hedging obligations, floor plan financing, letters of credit, surety bonds, bankers acceptances, repurchase agreements related to retailer floor plan financing and guarantees of additional debt otherwise permitted to be incurred. The resulting effect at July 3, 2004, when combined with limits in our Senior Notes due 2009, was a working capital line of credit limit of approximately \$87 million of which no more than approximately \$29 million could be secured debt, as defined.

We have two floor plan facilities with total availability of \$19.6 million, of which \$14.1 million was outstanding at July 3, 2004. A \$15 million floor plan financing facility contains a covenant requiring the maintenance of \$35 million of liquidity, as defined in the facility, at each fiscal month end. If we were to be out of compliance with

this covenant, the lender could terminate the credit line and cause the debt to become immediately due and payable. As of July 3, 2004, we had approximately \$10.8 million outstanding under this facility and were in compliance with the covenant.

We expect to spend less than \$10 million in 2004 on capital expenditures. We do not plan to pay cash dividends on our common stock in the near term.

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Contingent liabilities and obligations

We had significant contingent liabilities and obligations at July 3, 2004, including estimated wholesale repurchase obligations totaling approximately \$260.0 million (without reduction for the resale value of the homes), surety bonds and letters of credit totaling \$91.9 million and guarantees by certain of our consolidated subsidiaries of \$5.7 million of debt of unconsolidated subsidiaries.

We have provided various representations, warranties and other standard indemnifications in the ordinary course of our business, in agreements to acquire and sell business assets and in financing arrangements. We are also subject to various legal proceedings and claims which arise in the ordinary course of our business.

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

Summary of liquidity and capital resources

At July 3, 2004, our unrestricted cash balances totaled \$115.9 million and we had unused availability of \$5.5 million under our two floor plan facilities and \$1.5 million of availability under our \$75 million credit facility. Total cash available from these sources was approximately \$123 million. In the first six months of 2004, continuing operating activities used cash of \$32.7 million, and cash used for capital expenditures was \$4.1 million. Currently, we expect annual cash flow from operating activities for 2004 and 2005 to be adequate to fund the operations and capital expenditures of the Company. Annual capital expenditures are currently expected not to exceed \$10 million in 2004 and 2005. In addition, we have less than \$2 million of scheduled cash payments for debt due in the remainder of 2004 and 2005. Therefore, the level of cash availability is projected to be substantially in excess of cash needed to operate our businesses through 2005. In the event one or more of our capital resources were to become unavailable, we would revise our operating strategies accordingly.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Assumptions and estimates of future earnings and cash flow are used in the periodic analyses of the recoverability of goodwill, deferred tax assets, and property, plant and equipment. Historical experience and trends are used to estimate reserves, including reserves for self-insured risks, warranty costs and wholesale repurchase losses. Following is a description of each accounting policy requiring significant judgments and estimates:

Reserves for Self-Insured Risks

We are self-insured for a significant portion of our workers compensation, general and products liability, auto liability, health and property insurance. Under our current self-insurance programs, we are generally responsible for up to \$500,000 per claim for workers compensation (\$750,000 per claim in California) and automobile liability claims, up to \$1.5 million per claim for product liability and general liability claims and up to \$2.0 million per claim for property insurance claims including business interruption losses. We maintain excess liability and property insurance with outside insurance carriers to minimize our risks related to catastrophic claims. Under our current self-insurance program we are responsible for 100% of health insurance claims. Estimated insurance costs are accrued for incurred claims and claims incurred but not yet reported. Factors considered in estimating our insurance reserves are the nature of outstanding claims including the severity of the claims, estimated costs to settle existing claims, loss

history, and inflation, as well as estimates provided by our outside insurance broker and carrier, and third party actuaries. Significant changes in the factors described above could have a material adverse impact on future operating results.

Warranty Reserves

Our manufacturing operations generally provide the retail homebuyer with a twelve-month warranty. Estimated warranty costs are accrued as cost of sales at the time of sale. Our warranty reserve is based on estimates of the amounts necessary to settle existing and future claims on homes sold by the manufacturing operations as of the balance sheet date. Factors used to calculate the warranty obligation are the estimated number of homes still under warranty, including homes in retailer inventories and homes purchased by consumers still within the twelve-month warranty period, and the historical average costs incurred to service a home. Significant changes in these factors could have a material adverse impact on future operating results.

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Property, Plant and Equipment

The recoverability of property, plant and equipment is evaluated whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable, primarily based on estimated selling prices, appraised values or projected undiscounted cash flows. Our cash flow estimates are based on historical results adjusted for estimated current industry trends, the economy and operating conditions. Additionally, we use estimates of fair market values to establish impairment reserves for permanently closed facilities that are held for sale. Past evaluations of closed facilities have resulted in significant impairment charges. Significant changes in these estimates and assumptions could result in additional impairment charges in the future.

Income Taxes: Deferred Tax Assets and Income Tax Refunds

Deferred tax assets and liabilities are determined based on temporary differences between the financial statement balances and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. We periodically evaluate the realizability of our deferred tax assets based on the requirements established in SFAS No. 109, Accounting for Income Taxes, which requires the recording of a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. We incurred pretax losses in 2000 through 2003. Additionally, the manufactured housing industry continues to be challenged by limited availability of consumer and floor plan financing and high industry consumer repossession levels resulting in a continued decline in manufacturing shipments. We currently have a 100% valuation allowance against our 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. The valuation allowance will be reversed to income in future periods to the extent that the related deferred tax assets are realized as a reduction of taxes otherwise payable on any future earnings or a portion or all of the valuation allowance is otherwise no longer required.

Goodwill

We test for goodwill impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets. We evaluate each reporting unit's fair value versus its carrying value annually as of the end of each fiscal year or more frequently if events or changes in circumstances indicate that the carrying value may exceed the fair value of the reporting unit. When estimating a unit's fair value, we calculate the present value of future cash flows based on forecasted sales volumes, the number of retail sales centers and homebuilding facilities in operation, current industry and economic conditions, historical results and inflation. Past evaluations of goodwill have resulted in significant impairment charges. Significant changes in the estimates and assumptions used in calculating the fair value of goodwill or differences between estimates and actual results could result in additional impairment charges in the future.

Wholesale Repurchase Reserves

The majority of our manufacturing sales to independent retailers are made pursuant to repurchase agreements with the providers of floor plan financing. Potential losses under repurchase obligations are determined by calculating the difference between the repurchase price and the estimated net resale value of the homes. Probable losses under repurchase agreements are accrued based on the historical number of homes repurchased, the cost of such repurchases and the historical losses incurred as well as the current inventory levels held at our independent retailers. In addition, we monitor the risks associated with our independent retailers and consider these risks in our evaluation of the wholesale repurchase reserves. Significant changes in these factors could have a material adverse impact on future operating results.

Impact of Recently Issued Accounting Pronouncements

For information regarding the impact of recently issued accounting pronouncements, see Note 13 of Notes to Consolidated Financial Statements in Item 1 of this Report.

Forward Looking Statements

Certain statements contained in this Report, including our plans and beliefs regarding availability of liquidity and financing, anticipated capital expenditures, outlook for the manufactured housing industry in particular and the economy in general, availability of wholesale and consumer financing and characterization of and our ability to control our contingent liabilities, could be construed to be forward looking statements within the meaning of the Securities Exchange Act of 1934. In addition, we or persons acting on our behalf may from time to time publish or communicate other items that could also be construed to be forward looking statements. Statements of this sort are

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or will be based on our estimates, assumptions and projections, and are subject to risks and uncertainties, including those specifically listed below that could cause actual results to differ materially from those included in the forward looking statements. We do not undertake to update our forward looking statements or risk factors to reflect future events or circumstances. The following risk factors could materially affect our operating results or financial condition.

Significant leverage *Our significant debt could limit our ability to obtain additional financing, require us to dedicate a substantial portion of our cash flows from operations for debt service and prevent us from fulfilling our debt obligations. If we are unable to pay our debt obligations when due, we could be in default under our debt agreements and our lenders could accelerate our debt or take other actions which could restrict our operations.*

As discussed in Note 6 of the Notes to Consolidated Financial Statements in Item 1 of this Report, we have a significant amount of debt outstanding, which consists primarily of long-term debt. This indebtedness could, among other things:

limit our ability to obtain future financing for working capital, capital expenditures, acquisitions, debt service requirements, surety bonds or other requirements;

require us to dedicate a substantial portion of our cash flows from operations to the payment of principal and interest on our indebtedness and reduce our ability to use our cash flows for other purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the manufactured housing industry;

place us at a competitive disadvantage to competitors with less indebtedness; and

make us more vulnerable in the event of a continued downturn in our business or in general economic conditions.

In addition, our future cash flows may be insufficient to meet our debt service and other obligations. Our business may not generate cash flows from operations in amounts sufficient to enable us to pay our debt or to fund other liquidity needs. The factors that affect our ability to generate cash can also affect our ability to raise additional funds through the sale of equity securities, the refinancing of debt or the sale of assets.

We may need to refinance all or a portion of our debt on or before maturity. We may not be able to refinance any of our debt on commercially reasonable terms or at all. If we are unable to refinance our debt obligations, we could be in default under our debt agreements and our lenders could accelerate our debt or take other actions which could restrict our operations.

General industry conditions *As a result of the continued downturn in the manufactured housing industry, we have experienced a decline in sales and incurred operating losses and costs for the closures or consolidations of operations, fixed asset impairment charges and goodwill impairment charges. If industry conditions continue to deteriorate, our sales could decline further and our operating results and cash flows could suffer.*

Since mid-1999, the manufactured housing industry has experienced declining manufacturing shipments and retail sales, tightened consumer credit standards, reduced availability of consumer financing, high levels of homes repossessed from consumers, higher interest rates on manufactured housing loans relative to those generally available to site-built homebuyers, a reduced number of consumer and floor plan lenders and reduced floor plan availability. We estimate approximately half of the industry retail sales locations and manufacturing facilities have closed since mid-1999 as a result of these industry conditions. Since the beginning of the industry downturn, we have closed a significant number of homebuilding facilities and retail sales locations in an attempt to return to profitability. Since

2000, we have reported significant net losses including goodwill impairment charges, a valuation allowance of 100% of our deferred tax assets and restructuring charges, which are each discussed in more detail in Item 7 of our Form 10-K for 2003. If current trends in the industry continue, our sales could decline further, our operating results and cash flows could suffer and we may incur further losses including additional costs for the closures or consolidations of existing operations, fixed asset impairment charges and goodwill impairment charges.

Common stock and Senior Notes values *Our common stock price has been volatile and may continue to be volatile given current industry and economic conditions. Our Senior Notes have traded at significant discounts to face value and may in the future trade at discounts.*

The trading value per share of our stock has ranged from \$1.65 to \$11.68 during 2003 and the first six months

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of 2004. Additionally, our two issuances of Senior Notes have traded at discounts to their respective face values. The market prices of our common stock and Senior Notes are affected by many factors including: general economic and market conditions, interest rates, current manufactured housing industry forecasts, Champion's and our competitors operating results, our ability to pay our debt obligations, consumer and wholesale financing availability, the market's perception of our strategies and the overall market fluctuations unrelated to our Company or the manufactured housing industry. All of these factors may adversely impact the market prices of our common stock and Senior Notes in the future.

Fluctuations in operating results *The cyclical and seasonal nature of the manufactured housing market has caused our sales and operating results to fluctuate. These fluctuations may continue in the future, which could result in operating losses during downturns.*

The manufactured housing industry is highly cyclical and is influenced by many national and regional economic and demographic factors, including:

terms and availability of financing for homebuyers and retailers;

consumer confidence;

interest rates;

population and employment trends;

income levels;

housing demand; and

general economic conditions, including inflation and recessions.

In addition, the manufactured housing industry is affected by seasonality. Sales during the period from March to November are traditionally higher than in other months. As a result of the foregoing factors, our sales and operating results fluctuate, and we expect that they will continue to fluctuate in the future. Moreover, we may experience operating losses during cyclical and seasonal downturns in the manufactured housing market.

Consumer financing availability - Tightened credit standards and loan terms, curtailed lending activity, and increased interest rates among consumer lenders have reduced our sales. If consumer financing were to become further curtailed or unavailable, our sales could decline further and our operating results and cash flows could suffer.

The consumers who buy our homes have historically secured consumer financing from third party lenders. The availability, terms and costs of consumer financing depend on the lending practices of financial institutions, governmental regulations and economic and other conditions, all of which are beyond our control. A consumer seeking to finance the purchase of a manufactured home without land will generally pay a higher interest rate and have a shorter loan term than a consumer seeking to finance the purchase of land and the home. Manufactured home consumer financing is at times more difficult to obtain than financing for site-built homes. Since 1999, consumer lenders have tightened the credit underwriting standards and loan terms and increased interest rates for loans to purchase manufactured homes, which have reduced lending volumes and caused our sales to decline.

The poor performance of portfolios of manufactured housing consumer loans in recent years has made it more difficult for industry consumer finance companies to obtain long-term capital in the asset-backed securitization

market. As a result, consumer finance companies have curtailed their industry lending and many have exited the manufactured housing market. Additionally, the industry has seen certain traditional real estate mortgage lenders tighten terms or discontinue financing for manufactured housing.

If consumer financing for manufactured homes were to become further curtailed or unavailable, we would likely experience further retail and manufacturing sales declines and our operating results and cash flows would suffer.

Floor plan financing availability Reduced number of floor plan lenders and reduced amount of credit available to manufactured housing retailers may result in lower retail inventory levels as well as fewer sales centers. As a result, our manufacturing sales could decline further and our operating results and cash flows could suffer.

Independent retailers of our manufactured homes generally finance their inventory purchases with floor plan financing provided by lending institutions. The number of floor plan lenders and their lending limits affect the availability of wholesale financing to retailers. During the past five years several major national floor plan lenders have exited the industry or curtailed their floor plan operations. The remaining floor plan lenders or new floor plan lenders entering the industry may change the terms of their loans as compared to previously available terms for such

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floor plan loans. These changes could include higher interest rates, lower advance rates, earlier or more significant principal payments or longer repurchase periods for the manufacturers. In addition, weaker retailers may not qualify for floor plan financing at all. Reduced availability of floor plan lending or tighter floor plan terms may affect our independent retailers' inventory levels of new homes, the number of retail sales centers and related wholesale demand. Retail sales to consumers at our independent retailers could also be affected by reduced retail inventory levels or a reduced number of sales centers. As a result, we could experience manufacturing sales declines or a higher level of retailer defaults and our operating results and cash flows could suffer.

Contingent liabilities We have, and will continue to have, significant contingent wholesale repurchase obligations and other contingent obligations, some of which could become actual obligations that we must satisfy. We may incur losses under these wholesale repurchase obligations or be required to fund these or other contingent obligations that would reduce our cash flows.

In connection with a floor plan arrangement for our manufacturing shipments to independent retailers, the financial institution that provides the retailer financing customarily requires us to enter into a separate repurchase agreement with the financial institution. Under this separate agreement, generally for a period up to 24 months from the date of our sale to the retailer, upon default by the retailer and repossession of the home by the financial institution, we are generally obligated to purchase from the lender the related floor plan loan or the home at a price equal to the unpaid principal amount of the loan, plus certain administrative and handling expenses, reduced by the cost of any damage to the home and any missing parts or accessories. Our estimated aggregate contingent repurchase obligation at July 3, 2004 was significant and includes significant contingent repurchase obligations relating to our largest independent retail customers. For additional discussion see Contingent Repurchase Obligations in Item 2 of this Report and in Item 7 of our Form 10-K for 2003. We may be required to honor some or all of our contingent repurchase obligations in the future, which would result in operating losses and reduced cash flows.

At July 3, 2004, we also had contingent debt obligations related to surety bonds and letters of credit. In addition, we had guarantees by certain of our consolidated subsidiaries of debt of unconsolidated subsidiaries. For additional detail and discussion, see Liquidity and Capital Resources in Item 2 of this Report. If we were required to fund a material amount of these contingent obligations, we would have reduced cash flows and could incur losses.

Dependence upon independent retailers If we are unable to establish or maintain relationships with independent retailers who sell our homes, our sales could decline and our operating results and cash flows could suffer.

During 2003, approximately 78% of our manufacturing shipments of homes were made to independent retail locations throughout the United States and western Canada. As is common in the industry, independent retailers may sell manufactured homes produced by competing manufacturers. We may not be able to establish relationships with new independent retailers or maintain good relationships with independent retailers that sell our homes. Even if we do establish and maintain relationships with independent retailers, these retailers are not obligated to sell our manufactured homes exclusively, and may choose to sell our competitors' homes instead. The independent retailers with whom we have relationships can cancel these relationships on short notice. In addition, these retailers may not remain financially solvent as they are subject to the same industry, economic, demographic and seasonal trends that we face. If we do not establish and maintain relationships with solvent independent retailers in the markets we serve, sales in those markets could decline and our operating results and cash flows could suffer.

Effect on liquidity Current industry conditions and our recent operating results have limited our sources of capital. If this situation does not improve and if we are unable to locate alternative sources of capital, we may be unable to maintain or expand our business.

We depend on our cash balances, cash flows from operations, revolving credit facility, and floor plan facilities to finance our operating requirements, capital expenditures and other needs. The downturn in the manufactured housing industry, combined with our recent operating results and other changes, has decreased sources of financing.

If our cash balances, cash flows from operations, and availability under our revolving credit facility and floor plan facilities are insufficient to finance our operations and alternative capital is not available or if surety bonds become unavailable to us, we may not be able to expand our business or maintain our existing operations, or we may need to curtail or limit our existing operations.

We have a significant amount of surety bonds representing collateral for our self-insurance programs and for general operating purposes. We are required to provide collateral in support of our surety bond programs in the form of letters of credit. For additional detail and information concerning the amounts of our surety bonds and

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letters of credit, see Note 8 of Notes to Consolidated Financial Statements in Item 1 of this Report. If our current surety bond provider were to terminate these programs, we would seek alternative providers. The inability to retain our current provider or obtain alternative bonding sources could require us to post cash collateral, reduce the amount of cash available for our operations or cause us to curtail or limit existing operations.

Competition *The manufactured housing industry is very competitive. If we are unable to effectively compete, our growth could be limited, our sales could decline and our operating results and cash flows could suffer.*

The manufactured housing industry is highly competitive at both the manufacturing and retail levels, with competition based, among other things, on price, product features, reputation for service and quality, merchandising, terms of retailer promotional programs and the terms of consumer financing. Numerous companies produce manufactured homes in our markets. A number of our manufacturing competitors also have captive retail distribution systems and consumer finance operations. In addition, there are many independent manufactured housing retail locations in most areas where we have retail operations. Because barriers to entry for manufactured housing retailers are low, we believe that it is relatively easy for new retailers to enter our markets as competitors. In addition, our products compete with other forms of low to moderate-cost housing, including site-built homes, panelized homes, apartments, townhouses and condominiums. If we are unable to effectively compete in this environment, our retail sales and manufacturing shipments could be reduced. As a result, our sales could decline and our operating results and cash flows could suffer.

Zoning *If the manufactured housing industry is not able to secure favorable local zoning ordinances, our sales could decline and our operating results and cash flows could suffer.*

Limitations on the number of sites available for placement of manufactured homes or on the operation of manufactured housing communities could reduce the demand for manufactured homes and our sales. Manufactured housing communities and individual home placements are subject to local zoning ordinances and other local regulations relating to utility service and construction of roadways. In the past, property owners often have resisted the adoption of zoning ordinances permitting the location of manufactured homes in residential areas, which we believe has restricted the growth of the industry. Manufactured homes may not receive widespread acceptance and localities may not adopt zoning ordinances permitting the development of manufactured home communities. If the manufactured housing industry is unable to secure favorable local zoning ordinances, our sales could decline and our operating results and cash flows could suffer.

Dependence upon executive officers and other key personnel *The loss of any of our executive officers or other key personnel could reduce our ability to manage our businesses and achieve our business plan, which could cause our sales to decline and our operating results and cash flows to suffer.*

We depend on the continued services and performance of our executive officers and other key personnel. If we lose the service of any of our executive officers or other key personnel, it could reduce our ability to manage our businesses and achieve our business plan, which could cause our sales to decline and our operating results and cash flows to suffer.

Certain elements of our business strategy may not succeed *Our business strategy may not adequately address the issues currently facing our Company and the manufactured housing industry or correctly identify future trends in the industry. Any failure of our business strategy could cause our sales to decline and our operating results and cash flows to suffer.*

Since mid-1999, retail sales and manufacturing shipments of new manufactured homes have decreased as a result of high consumer repossession levels, tightened consumer credit standards, excess retail locations and inventory, a

reduced number of consumer lenders in the industry, higher interest rates on consumer loans and a reduced number of floor plan lenders in the industry. As a result, our sales have declined, we have experienced operating losses and we have closed a significant number of manufacturing facilities and retail sales centers. We are implementing strategies designed to address these issues. These strategies may not be successful because the reasons for the decline in demand or future trends in the industry may not be correctly identified, and our operating results may not improve. In addition, factors beyond our control, such as increased competition, reductions in consumer demand or continued economic downturn, may offset any improved operating results that are attributable to our strategy. Any failure of our business strategy could cause our sales to decline and our operating results and cash flows to suffer or cause us to incur additional and potentially substantial losses to close and liquidate unsuccessful operations or lines of business.

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Restrictive covenants *The terms of our debt place operating restrictions on us and our subsidiaries and contain various financial performance and other covenants with which we must remain in compliance. If we do not remain in compliance with these covenants, certain of our debt facilities could be terminated and the amounts outstanding thereunder could become immediately due and payable.*

The documents governing the terms of our Senior Notes, primarily the Senior Notes due 2007, contain covenants that place restrictions on us and our subsidiaries. The terms of our debt agreements include covenants that, to varying degrees, restrict our and our subsidiaries' ability to:

incur additional indebtedness, contingent liabilities and liens;

issue additional preferred stock;

pay dividends or make other distributions on our common stock;

redeem or repurchase common stock and redeem, repay or repurchase subordinated debt;

make investments in subsidiaries that are not restricted subsidiaries;

enter into joint ventures;

use assets as security in other transactions;

sell certain assets or enter into sale and leaseback transactions;

restrict the ability of our restricted subsidiaries to pay dividends or make other distributions on their common stock;

engage in new lines of business;

guarantee or secure indebtedness;

consolidate with or merge with or into other companies; and

enter into transactions with affiliates.

We have a \$75.0 million revolving credit facility to use for letters of credit and general corporate purposes. Availability under this credit facility is limited to a borrowing base, and is collateralized by accounts receivable, inventories, property, plant and equipment, cash and other assets. The agreement contains certain financial covenants that require us, only in the event that our liquidity, as defined, falls below \$35.0 million, to maintain certain levels of earnings, as defined, and certain ratios of earnings to fixed charges, as defined in the agreement. In addition, the facility contains covenants that limit our ability to incur additional indebtedness and liens, sell assets and, if liquidity falls below \$35.0 million, make certain investments, pay dividends and purchase or redeem our common stock. For additional detail and discussion concerning these financial covenants see "Liquidity and Capital Resources" in Item 2 of this Report.

One of our floor plan financing facilities contains a covenant requiring the maintenance of \$35.0 million of liquidity, as defined in the facility, at each month end. If we were to be out of compliance with this covenant, the lender could terminate the credit line and cause the related debt to become immediately due and payable. For additional detail and discussion concerning this facility and the amounts outstanding under this facility see "Liquidity

and Capital Resources in Item 2 of this Report.

If we fail to comply with any of these covenants, the lenders could cause our debt to become due and payable prior to maturity. If our debt were to be accelerated, our assets might not be sufficient to repay our debt in full.

Potential Dilution - Outstanding preferred stock that is convertible into common stock and redeemable for common stock (and in some cases, at our option, for cash), a warrant to acquire common stock, a deferred purchase price obligation that is payable, at our option, in cash or common stock, and other potential capital or debt reduction transactions could result in potential dilution and impair the price of our common stock.

At July 3, 2004 there was \$8.75 million of Series C preferred stock outstanding, which is convertible into common stock at a rate of \$5.66 per share, and \$12.0 million of Series B-2 preferred stock outstanding, which is convertible into common stock at a rate of \$7.92 per share. The Series C and B-2 preferred stock have mandatory redemption dates of April 2, 2009 and July 3, 2008, respectively. Our preferred shareholder has the right to redeem this preferred stock for common stock, and, at our option, partially for cash.

We pay a quarterly dividend on the preferred stock at a rate of 5% per annum. The dividend is payable in cash or shares of our common stock, at our option. The number of shares issuable in payment of these dividends depends on the market value of the common stock at the time of issuance (subject to certain limitations). As a result, assuming we elected to pay any dividend in shares of common stock, the preferred shareholder would receive a greater number of shares of common stock in payment of those dividends if our common stock price decreases.

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We have a warrant outstanding which is exercisable based on approximately 2.2 million shares of common stock at a strike price currently of \$11.52 per share. The warrant strike price increases annually in April by \$0.75 per share. The warrant expires on April 2, 2009. The warrant is exercisable only on a non-cash, net basis, whereby the warrant holder would receive shares of common stock as payment for the net gain upon exercise.

As of July 3, 2004, we had \$6.0 million of a deferred purchase price obligation which is payable in quarterly installments of \$2.0 million through January 3, 2005. Quarterly installments may be made in cash or shares of common stock, at our option. The number of shares to be issued in any quarterly payment depends on the market value of the common stock. As a result, assuming we elected to pay any quarterly installment in shares of common stock, as we have in the past, the recipients would receive a greater number of shares of common stock in payment of those installments if our common stock price decreases.

In a series of transactions during the fourth quarter of 2003 and the first quarter of 2004, we purchased and retired \$71.7 million of our Senior Notes due 2007 and 2009 in exchange for 10.4 million shares of our common stock.

To the extent that the preferred shareholder elects to convert or redeem the preferred stock into common stock, or we elect to make dividend payments on preferred stock or the deferred purchase price obligation payments in common stock, or we reduce debt obligations through the issuance of common shares, our then existing common shareholders would experience dilution in their percentage ownership interests. The additional shares of common stock that could be available for sale upon conversion or redemption of the preferred stock, as dividends on the preferred stock, in payment of the deferred purchase price obligation, or in payment of our outstanding debt, may have a negative impact on the market price of our common stock. In addition, sale of substantial amounts of our common stock in the public market by the preferred shareholder, the recipients of the deferred purchase price payments, or the exchangers of Senior Notes, or the perception that these sales might occur, could depress the price of our common stock. Such selling shareholders may determine the timing, structure and terms of any disposition of our common stock, all of which could affect the market price of our common stock.

We may seek additional sources of capital and financing in the future or issue securities in connection with retiring our outstanding indebtedness, the terms of which may result in additional potential dilution.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our floor plan borrowings and obligations under industrial revenue bonds are subject to variable rates of interest based on the U.S. prime interest rate, short-term tax exempt rate indices and LIBOR, respectively. Without consideration of the minimum rate of interest on certain of the floor plan borrowings, a 100 basis point increase in the underlying interest rates would result in additional annual interest cost of approximately \$0.3 million, assuming average related debt of \$26.5 million, the amount of outstanding borrowings at July 3, 2004.

Item 4. Controls and Procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to cause material information required to be disclosed by the Company in the reports that we file or submit under the Securities Exchange Act of 1934 to be recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. During the quarter ended July 3, 2004, there were no changes in our internal control over financial reporting which materially affected, or would have been reasonably likely to have materially affected, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 2. Changes in Securities and Use of Proceeds.**

On January 5, 2004, April 5, 2004 and July 6, 2004 we issued 275,996 shares, 193,047 shares and 214,361 shares of our common stock, respectively, in connection with each of the \$2.0 million quarterly installment payments under convertible promissory notes issued June 21, 2001. These notes represent a deferred purchase price obligation of the Company. Although these shares of common stock were issued in private placements in reliance on the exemption from registration contained in Section 4(2) of the Securities Exchange Act of 1933, such shares of common stock have been registered for resale under the Securities Exchange Act of 1933, pursuant to effective registration statements.

On March 2, 2004, we completed the sale of 12,000 shares of Series B-2 Cumulative Convertible Preferred Stock to Fletcher International, Ltd. (Fletcher), an accredited investor, in reliance upon Section 4(2) of the Securities Act of 1933, as amended. The sale was pursuant to the exercise by Fletcher of its right to purchase \$12 million of preferred stock under an agreement dated as of June 29, 2001, by and between Fletcher and the Company. The Series B-2 preferred stock is convertible into our common stock at a rate of \$7.92 per share through the mandatory redemption date of July 3, 2008. The aggregate purchase price for this preferred stock was \$12 million and the proceeds were used for general corporate purposes.

Item 4. Submission of Matters to a Vote of Security Holders

On April 27, 2004 the Registrant held its 2004 Annual Meeting of Shareholders at which the following matters were submitted to a vote of security holders with results as follows:

1. Election of Directors

Nominee	Votes For	Votes Withheld
Robert W. Anestis	62,832,501	1,432,627
Eric S. Belsky	63,106,932	1,158,196
Selwyn Isakow	62,605,556	1,659,572
Brian D. Jellison	62,195,311	2,069,817
Albert A. Koch	62,835,709	1,429,419
G. Michael Lynch	62,606,854	1,658,274

Item 5. Other Information

On June 30, 2003, in connection with the appointment of Albert A. Koch as Chairman of the Board, President and Chief Executive Officer, the Company entered into a letter agreement with AP Services, LLC, pursuant to which AP Services provides interim management services to the Company, including the services of Mr. Koch. Also on June 30, 2003, the Company entered into a letter agreement with AlixPartners, LLC, pursuant to which AlixPartners provided financial and operational consulting services to the Company. These agreements were approved by all of the independent members of the Board. Mr. Koch is a Principal of AlixPartners, LLC. The services of Mr. Koch provided under the AP Services agreement ended on July 31, 2004.

The Board has formed a review committee comprised solely of independent directors to (i) review, oversee and monitor the services provided to the Company by AP Services and AlixPartners pursuant to the June 30, 2003 agreements or under other Board approved agreements; (ii) review, monitor and approve invoices for services provided by either AP Services or AlixPartners under Board approved agreements; (iii) review and make recommendations to the full Board concerning any proposals for additional services to the Company by AP Services or AlixPartners; (iv) review, monitor and take appropriate action concerning any questions or issues that may arise in connection with services provided by AP Services or AlixPartners; and (v) make regular reports to the Board concerning the performance and progress of AP Services and AlixPartners under all such Board approved agreements.

In addition to the two June 30, 2003 agreements, the Board has approved seven agreements for AlixPartners to provide additional services and programs to the Company. The fees for six of these agreements are based on hourly rates and expenses and the fees for the other are contingent upon savings from that program. These agreements were reviewed and approved by the independent review committee and subsequently approved by the independent members of the Board. These agreements are being monitored by the independent review committee.

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During the three and six months ended July 3, 2004, we recorded expenses of \$1.4 million and \$1.8 million and paid fees of \$0.8 million and \$1.5 million, respectively, for services rendered under all of the arrangements with AP Services and AlixPartners, including the services of Mr. Koch.

Item 6. Exhibits and Reports on Form 8-K.

(a) The following exhibits are filed as part of this report:

Exhibit No.	Description
31.1	Certification of Chief Executive Officer dated August 4, 2004, relating to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004.
31.2	Certification of Chief Financial Officer dated August 4, 2004, relating to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004.
32.1	Certification of Chief Executive Officer and Chief Financial Officer of the Registrant, dated August 4, 2004, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, relating to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2004.

(b) Current reports on Form 8-K

- 1) April 21, 2004. Press release filed under Item 5 announcing Champion Enterprises, Inc. first quarter 2004 results with condensed consolidated financial information.
- 2) June 16, 2004. Amendment and restatement of the Code of Ethics of Champion Enterprises, Inc. filed under Item 10.
- 3) July 2, 2004. Amendment to current report on Form 8-K (Item 5) filed February 18, 2004.
- 4) July 13, 2004. Press release filed under Item 5 announcing that William C. Griffiths was named president and chief executive officer of the Company effective August 1, 2004. In connection with this appointment, the Company entered into an Executive Employment Agreement with Mr. Griffiths.
- 5) July 23, 2004. Press release filed under Item 5 announcing Champion Enterprises, Inc. second quarter 2004 results with condensed consolidated financial information.

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SIGNATURES

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

CHAMPION ENTERPRISES, INC.

By: /s/ PHYLLIS A. KNIGHT

Phyllis A. Knight
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

And: /s/ RICHARD HEVELHORST

Richard Hevelhorst
Vice President and Controller
(Principal Accounting Officer)

Dated: August 4, 2004

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