CHAMPION ENTERPRISES INC
Form 10-Q
August 19, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark one)

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

FOR QUARTERLY PERIOD ENDED JUNE 29, 2002

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

FOR THE TRANSITION PERIOD FROM ____________ TO ____________

Commission file number 1-9751

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

Michigan	38-2743168
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

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

49,161,188 shares of the registrant's $1.00 par value Common Stock were outstanding as of August 2, 2002.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Unaudited Three Months Ended		Six
	June 29, 2002	June 30, 2001	June 29, 2002
Net sales	$ 361,506	$ 428,202	$ 667,883
Cost of sales	301,300	351,791	563,168
Gross margin	60,206	76,411	104,715
Selling, general and administrative expenses	67,720	67,839	125,958
Goodwill impairment charges	97,000	--	97,000
Closing-related expenses	4,900	1,000	4,900
Gain on debt retirement	(5,870)	--	(5,870
Operating income (loss)	(103,544)	7,572	(117,273
Interest income	601	766	1,219
Interest expense	(7,648)	(6,548)	(13,083
Income (loss) before income taxes	(110,591)	1,790	(129,137
Income taxes (benefits)	88,700	1,300	82,000
Net income (loss)	$(199,291)	$ 490	$(211,137
Basic earnings (loss) per share	$ (4.10)	$ 0.01	$ (4.36
Weighted shares for basic EPS	48,729	47,847	48,617

Diluted earnings (loss) per share	$ (4.10)	$ 0.01	$ (4.36
Weighted shares for diluted EPS	48,729	49,508	48,617

See accompanying Notes to Consolidated Financial Statements.

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

	Unaudited June 29, 2002
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 85,636
Restricted cash	17,777
Accounts receivable, trade	49,436
Inventories	171,457
Deferred tax assets	--
Other current assets	46,423
Total current assets	370,729
LOANS RECEIVABLE	6,145
PROPERTY, PLANT AND EQUIPMENT	303,574
Less-accumulated depreciation	139,007
	164,567
GOODWILL, NET	165,964
OTHER NON-CURRENT ASSETS	
Restricted cash	18,443
Deferred tax assets	--
Other non-current assets	26,190
Total assets	$ 752,038
LIABILITIES AND SHAREHOLDERS' EQUITY	
CURRENT LIABILITIES	
Floor plan payable	$ 10,745
Accounts payable	67,312
Warehouse borrowings	2,103

Accrued warranty obligations	41,248
Accrued volume rebates	33,145
Accrued compensation and payroll taxes	20,634
Accrued insurance	23,421
Other current liabilities	55,239
Total current liabilities	253,847
LONG-TERM LIABILITIES	
Long-term debt	344,867
Deferred portion of purchase price	14,000
Other long-term liabilities	31,291
	390,158
CONTINGENT LIABILITIES (Note 7)	
REDEEMABLE CONVERTIBLE PREFERRED STOCK, no par value, 5,000 shares authorized, 45 and 20 shares issued and outstanding, respectively	43,959
SHAREHOLDERS' EQUITY	
Common stock, $1 par value, 120,000 shares authorized, 48,822 and 48,320 shares issued and outstanding, respectively	48,822
Capital in excess of par value	39,362
Retained earnings (deficit)	(22,688)
Accumulated other comprehensive income (loss)	(1,422)
Total shareholders' equity	64,074
Total liabilities and shareholders' equity	$ 752,038

See accompanying Notes to Consolidated Financial Statements.

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

	Unaudited Six Months En
	June 29, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	$(211,137)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:	
Depreciation and amortization	11,563

Goodwill impairment charges	97,000
Deferred income taxes	94,800
Fixed asset impairment charges	1,900
Gain on debt retirement	(5,870)
Increase/decrease	
Accounts receivable	(21,929)
Inventories	819
Accounts payable	19,753
Accrued liabilities	1,100
Other, net	(6,229)
Total adjustments	192,907
Net cash provided by (used for) operating activities	(18,230)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisitions	(8,050)
Increase in loans receivable	(6,145)
Additions to property and equipment	(2,857)
Investments in and advances to unconsolidated subsidiaries	(1,139)
Proceeds on disposal of fixed assets	3,069
Net cash used for investing activities	(15,122)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Decrease in floor plan payable, net	(60,174)
Repayment of long-term debt	(440)
Proceeds from Senior Notes	145,821
Purchase of Senior Notes	(23,750)
Proceeds from warehouse borrowings	2,103
Increase in deferred financing costs	(3,266)
Increase in restricted cash	(35,572)
Preferred stock issued, net	23,810
Common stock issued, net	1,000
Net cash provided by (used for) financing activities	49,532
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,180
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	69,456
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 85,636

See accompanying Notes to Consolidated Financial Statements.

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 goodwill impairment charge discussed in Note 2 and the deferred tax asset valuation allowance discussed in Note 3. Financial results of the interim period are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year. The balance sheet as of December 29, 2001 was derived from audited financial statements. Certain prior period amounts have been reclassified to conform to the current period presentation. Accumulated other comprehensive income (loss) consists of foreign currency translation adjustments. The Company's total comprehensive loss for the three and six months ended June 29, 2002 was $198.7 million and $210.6 million, respectively compared to its total comprehensive income of $0.6 million for the three months ended June 30, 2001 and total comprehensive loss of $25.6 million for the six months then ended.

2. During the quarter ending June 29, 2002 the Company's operating results were affected by continuing challenging industry conditions including reductions in chattel lending availability, the effects of Conseco Finance Corp. exiting the floor plan lending business, high industry repossession levels and the Texas legislation that limits the use of chattel financing to purchase a manufactured home. As a result of these conditions and their effects on our sales volume and operating results, in June 2002 the Company announced the closure or consolidation of 33 under-performing retail sales centers and one manufacturing facility. The continuation of these industry conditions through the month of July 2002, together with unfavorable changes in the economy, caused the Company to re-evaluate our manufacturing and retail capacity and overall cost structure. On August 8, 2002, the Company announced the closure or consolidation of 64 retail sales centers and seven manufacturing facilities. These additional closures bring the total retail closures in 2002 to 101 or

   46% of the sales centers we were operating at the beginning of 2002.

   As a result of the significant downsizing of our retail operations in reaction to continuing challenging industry conditions and in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," we performed a test for goodwill impairment using the present value of future cash flows method. The results of this test indicated that the fair value of the retail goodwill was less than its carrying value. Therefore, in the quarter ended June 29, 2002, we recorded non-cash goodwill impairment charges of $97 million.

   The change in the carrying amount of goodwill follows:

	Six Months Ended June 29, 2002			
	Manufacturing	Retail	Other	T
	(In thousands)			
Balance at December 29, 2001	$ 126,482	$ 131,571	$ 914	$ 2
Impairment charges	--	(97,000)	--	(
Goodwill acquired	--	--	4,099	
Other changes	31	(133)	--	
Balance at June 29, 2002	$ 126,513	$ 34,438	$ 5,013	$ 1

3. SFAS No. 109, "Accounting for Income Taxes," 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." It further states, "forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years" and places considerably more weight on historical results and less weight on future projections. The Company incurred pretax losses in 2000 and 2001 and through the first half of 2002 totaling $391 million, including goodwill impairment charges of $97 million in 2002 and $190 million in 2000. The industry continues to be challenged by limited availability of consumer chattel financing, high industry repossession levels and reductions in wholesale floor plan lending availability and a negative economic outlook resulting in a continued decline in wholesale shipments and retail sales. In the absence of specific favorable factors, application of SFAS No. 109 requires a 100% valuation allowance for any net deferred tax asset when a company has cumulative financial accounting losses, excluding unusual items, over several years. Accordingly, after consideration of these factors, in the quarter ended June 29, 2002, the Company provided a 100% valuation allowance against deferred tax assets, which totaled $120 million. 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.

Because of provisions in the tax law which allow us to receive a carryback refund for taxable losses incurred in 2002, in determining the amount of the deferred tax asset valuation allowance we had to estimate the current tax deductibility of certain costs and charges. These estimates are subject to change. Any differences between these current estimates and actual values determined at the end of this fiscal year will result in a change to the valuation allowance which will be reflected in results of operations in the third or fourth quarter of the year.

The income tax provision or benefit differs from the amount of income tax determined by applying the applicable U.S. statutory federal income tax rate to pretax loss as a result of the following differences:

	Six Months E	
	June 29, 2002	
	(In thousa	
Statutory U.S. tax rate	$ (45,200)	$
Change in rate resulting from		
Deferred tax valuation allowance	120,000	
State taxes, net of federal benefit	(3,700)	
Nondeductible goodwill amortization and impairment charges	10,300	
Other	600	
Total income tax provision (benefit)	$ 82,000	$

4. A summary of inventories by component follows:

	June 29, 2002
	(In thousa
New manufactured homes	$ 102,187
Raw materials	33,175
Work-in-process	7,810
Other inventory	28,285
	$ 171,457

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

5. A summary of other current and non-current assets by component follows:

	June 29, 2002
	(In t
Other Current Assets	
Refundable income taxes	$ 18,840
Deposits	15,558
Other current assets	12,025
	$ 46,423
Other Non-Current Assets	
Investment in unconsolidated subsidiaries	$ 9,057
Other non-current assets	17,133
	$ 26,190

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

6. Reconciliations of segment sales to consolidated sales and segment EBITA (earnings (loss) before interest, taxes, goodwill amortization and impairment charges, general corporate expenses and certain gains) to consolidated operating income (loss) follow. Finance EBITA (loss)

includes operating costs and net interest income earned on loans receivable.

	Three Months E	
	June 29, 2002	Ju 2
	(In thousand	
Net sales		
Manufacturing	$ 313,699	$ 3
Retail	96,607	1
Less: intercompany	(48,800)	(
Consolidated net sales	$ 361,506	$ 4
Operating income (loss)		
Manufacturing EBITA	$ 10,426	$
Retail EBITA (loss)	(13,802)	
Finance EBITA (loss)	(1,927)	
Gain on debt retirement	5,870	
General corporate expenses	(7,111)	
Goodwill impairment charges	(97,000)	
Goodwill amortization	-	
Consolidated operating income (loss)	$ (103,544)	$

	Six Months End	
	June 29, 2002	Jun 2
	(In thousands	
Net sales		
Manufacturing	$ 580,351	$ 6
Retail	176,732	2
Less: intercompany	(89,200)	(
Consolidated net sales	$ 667,883	$ 7
Operating loss		
Manufacturing EBITA	$ 11,729	$
Retail EBITA (loss)	(21,880)	(
Finance EBITA (loss)	(1,927)	
Gain on debt retirement	5,870	
General corporate expenses	(14,065)	(
Goodwill impairment charges	(97,000)	
Goodwill amortization	-	
Consolidated operating loss	$ (117,273)	$ (

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For the three and six months ended June 29, 2002, retail EBITA (loss) includes $1.9 million of non-cash fixed asset impairment charges and $3.0 million of lease termination and other costs associated with closures of retail sales centers. For the quarter ended June 30, 2001, manufacturing EBITA includes $1.0 million of non-cash fixed asset impairment charges related to closed plants. For the six month period ended June 30, 2001, manufacturing EBITA includes $3.3 million of non-cash fixed asset impairment charges related to closed plants, and retail EBITA (loss) includes $3.2 million of non-cash fixed asset impairment charges and $2.2 million of lease termination and other costs associated with closures of retail sales centers. Retail floor plan interest expense not charged to retail EBITA (loss) totaled $0.9 million and $2.3 million for the three and six months ended June 29, 2002 and $2.2 million and $4.9 million for the three and six months ended June 30, 2001, respectively.

7. As is customary in the manufactured housing industry, the majority of Champion's manufacturing sales to independent retailers are made in connection with repurchase agreements with lending institutions that provide wholesale floor plan financing to the retailers. Pursuant to these agreements, for a period of either 12 or 15 months from invoice date of the sale of the homes and upon default by the retailer 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 maximum potential contingent repurchase obligation at June 29, 2002 was estimated to be $270 million, without reduction for the resale value of the homes. This amount compares to $300 million at the beginning of the year and $320 million a year ago. Repurchase losses incurred totaled $0.2 million and $0.5 million for the three and six months ended June 29, 2002, respectively, and $1.3 million and $3.3 million for the three and six months ended June 30, 2001, respectively.

   At June 29, 2002 the Company was contingently obligated for additional purchase price of up to $42 million related to its 1999 acquisitions. Management currently believes that none of this contingent purchase price will require payment.

   At June 29, 2002 Champion was contingently obligated for approximately $35 million under letters of credit and $43 million under surety bonds, generally to support insurance, industrial revenue bond financing, and license and service bonding requirements. The $35 million of letters of credit and $21 million of the surety bonds support insurance reserves and long-term debt that are reflected as liabilities in the Company's consolidated balance sheet. As of June 29, 2002, the Company had fully collateralized its letters of credit with restricted cash including $17.8 million to support insurance reserves and $18.4 million to support long-term debt. In addition, the Company has deposited $9.6 million to secure surety bonds.

   At June 29, 2002, the Company is contingently liable for up to $15 million under an unconditional guaranty of a $150 million warehouse facility of a third party special purpose entity (which is included in our consolidated financial statements). The warehouse facility, which has an outstanding

balance of $2.1 million at June 29, 2002, supports the Company's finance company's operations and is included in the Company's consolidated balance sheet.

At June 29, 2002 certain of the Company's subsidiaries were guarantors of $6.6 million of debt of unconsolidated subsidiaries.

8. On April 2, 2002 the Company issued $25 million of Series C cumulative convertible preferred stock and a warrant which was initially exercisable based on approximately 1.1 million shares of common stock at a strike price of $12.04 per share. In accordance with the terms of the warrant, on August 6, 2002 the number of shares under warrant and the strike price per share were reset at 2.2 million shares and $10.02 per share, respectively. Beginning on March 29, 2003, the warrant strike price will increase annually 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. The Series C preferred stock has a seven-year term and a 5% annual dividend that is payable quarterly, at the Company's option, in cash or common stock. The initial conversion price is $9.63 per share. On June 29, 2003, the conversion price will be adjusted to 115% of the common stock's then market value (subject to certain limitations), provided that such conversion price shall not be greater than $10.83 per share or less than $5.66 per share. Commencing March 29, 2004, this preferred stock is redeemable by the holder for common stock, and, at the Company's option, partially for cash. The net proceeds of this issuance of $23.8 million were used to fund a portion of the cash collateral for the letters of credit discussed above. The preferred stock is presented net of issuance costs which are amortized over a period of two years from the date of issuance by charges to paid-in-capital.

The rights and preferences of the Company's Series B-1 cumulative convertible preferred stock, which was issued in July 2001 and of which $20 million is outstanding, were amended on March 29, 2002 to provide, among other things, for mandatory redemption on March 29, 2004. Such redemption may be made for either common stock or cash, at the Company's option. Additionally, the commencement date of the holder's optional redemption period for the Series B-1 preferred stock was changed to April 2, 2002, from July 2003, and the expiration date of the holder's rights to purchase an additional $12 million of Series B-1 preferred stock was extended to December 31, 2004 from March 2003. Optional redemptions may be made only for common stock.

On June 30, 2002 Champion paid quarterly dividends on the preferred stock by issuing 77,000 shares of the company's common stock. These shares are included in issued and outstanding shares at June 29, 2002.

9. The numerators used in the Company's basic earnings per share (EPS) calculations consist of net income (loss) as reported in the financial statements less the effect of preferred stock dividends. The numerator for diluted EPS calculations is the numerator of basic EPS adjusted by adding back the preferred stock dividend. In loss periods the dividend is not added back because the effect would be antidilutive. The denominators used in the Company's EPS calculations are as follows: weighted average shares outstanding are used in calculating basic EPS. Weighted average shares outstanding plus the effect of dilutive securities are used in calculating diluted EPS. The Company's potential dilutive securities consist of outstanding stock options, convertible preferred stock, warrants and $22

million of deferred purchase price which is payable, at the Company's option, in cash or common stock. Dilutive securities were not considered in determining the denominator for diluted EPS in either six-month period presented and for the three months ended June 29, 2002 because the effect on the net loss would be antidilutive. Calculations of basic and diluted EPS follow:

	Three Months End
	June 29, 2002
	(In thousands, except pe
Numerator:	
Net income (loss)	$ (199,291)
Less: preferred stock dividend	563
Income (loss) available to common shareholders	$ (199,854)
Denominator:	
Weighted average shares outstanding	48,729
Effect of dilutive securities - options	-
Shares for diluted EPS	48,729
Basic earnings (loss) per share	$ (4.10)
Diluted earnings (loss) per share	$ (4.10)

	Six Months Ende
	June 29, 2002
	(In thousands, except per s
Numerator:	
Net loss	$ (211,137)
Less: preferred stock dividend	813
Loss available to common shareholders	$ (211,950)
Denominator:	
Weighted average shares outstanding	48,617
Basic and diluted loss per share	$ (4.36)

10. During the quarter ended June 29, 2002, the Company terminated its revolving credit agreement for a $75 million secured line of credit. As a result of the termination of this credit facility, the guarantees by the Company's subsidiaries of the Senior Notes due 2009 terminated. However, Champion Home Builders Co. ("CHB"), a wholly-owned subsidiary of the Company, has agreed to be a guarantor and substantially all of CHB's subsidiaries have agreed to be guarantors, on a basis subordinated to their guarantees of the Senior Notes due 2007, of the $170 million Senior Notes due 2009. Additionally, the Company arranged to have a bank provide $35 million of letters of credit on a fully cash collateralized basis.

    In April 2002, CHB issued $150 million of Senior Notes due 2007 with interest payable semi-annually at an

annual rate of 11.25%. The net proceeds, net of deferred financing costs, of approximately $145 million from the offering were used to acquire the manufactured housing loan origination business of CIT Group/Sales Financing, Inc. ("CIT"), to repay a portion of the Company's debt, including a significant portion of the Company's floor plan payable, to provide working capital for the Company's existing business segments and the Company's new consumer financing business, and for general corporate purposes. The Notes contain covenants, which among other things limit the Company's ability to incur additional indebtedness, issue additional redeemable preferred stock, pay dividends on or repurchase common stock, make certain investments and incur liens on assets. Substantially all of CHB's wholly owned subsidiaries are guarantors and the Company is a subordinated guarantor of the Senior Notes due 2007. The Senior Notes due 2007 are effectively senior to the Senior Notes due 2009.

A covenant in the Senior Notes due 2007 currently limits additional debt to 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; warehouse financing meeting certain parameters up to $200 million; other debt up to $30 million; and ordinary course indebtedness 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 guaranties of additional debt otherwise permitted to be incurred.

In April 2002, the Company arranged a $150 million warehouse facility for a consolidated third party special purpose entity to support the finance company's operations. Interest on borrowings under the warehouse facility is at LIBOR plus 80 basis points and there is a facility fee that is payable monthly based on an annual rate of 40 basis points of the entire facility. The warehouse facility has a term of one year and contains covenants that require the Company's maintenance of minimum interest coverage ratios and tangible net worth, as defined therein; certain minimum unsecured debt ratings from two of the national ratings agencies; and that the Company perform certain other duties thereunder. Subsequent to quarter-end, the consolidated third party special purpose entity entered into waiver agreements to cure noncompliance with the minimum interest coverage ratio covenant for the quarter ended June 29, 2002 and to cure noncompliance with the minimum tangible net worth covenant as of June 29, 2002 and provide for a lower minimum tangible net worth requirement through August 30, 2002.

During the third quarter of 2002, the Company will seek and will need to obtain amendments to the performance covenants of the $150 million warehouse

facility in order to ensure our continuing compliance therewith. If the Company cannot obtain such amendments, it would be in default under the facility. Also, if the Company's operating results do not improve it may again become noncompliant with one or more of the covenants, which, if not cured or amended, would result in default under the facility. In an event of default, the agent bank could discontinue making further advances under the facility and enact alternate "waterfall" provisions thereunder that would reduce or eliminate current payments to the consolidated third party special purpose entity from the underlying consumer loans. If the agent were to discontinue further advances, the Company would seek other sources of capital for its consumer finance operations.

The Company has a $15 million floor plan financing facility that contains a covenant requiring it to maintain minimum earnings before interest, taxes, depreciation and amortization (EBITDA), as defined. If the Company's operating results do not improve, it may not be in compliance with this covenant, which could result in the lender terminating the credit line and causing such debt to become immediately due and payable. As of June 29, 2002, the Company had approximately $2 million outstanding under this facility.

In August 2002, Moody's Investors Service ("Moody's") and Standard & Poor's announced that they have placed under review, for possible downgrade, the Company's senior implied credit ratings and the ratings on the Company's Senior Notes due 2007 and Senior Notes due 2009. Because the $150 million warehouse facility arranged by the Company in April 2002 requires that we maintain certain minimum unsecured debt ratings, a negative ratings action by Moody's or Standard & Poor's could cause a default under that facility. A negative ratings action also could affect the Company's ability to obtain or maintain various forms of business credit, including but not limited to letters of credit, surety bonds, trade payables and floor plan financing, or could result in the Company having to place additional collateral related thereto.

During the quarter ended June 29, 2002, the Company purchased and retired $30 million of its Senior Notes due

2009 for $23.8 million, resulting in a gain of $5.9 million before tax or $3.6 million after tax. At June 29, 2002, the Company's outstanding notes payable balance due 2009 totaled $170 million.

During the quarter and year-to-date periods ended June 29, 2002, the Company repaid approximately $53 million and $60 million of its floor plan borrowings, respectively.

11. In April 2002 the Company acquired CIT's manufactured housing consumer loan origination business and entered into certain related agreements for approximately $5 million. Through June 29, 2002 the Company's newly acquired financing segment had originated $6.1 million of loans and had applied $2.4 million of these loans to the warehouse facility, resulting in $2.1 million of proceeds. The Company structures sales of originated consumer loans to the warehouse facility, and intends to structure asset-backed securitizations in the capital markets, as collateralized financing transactions under generally accepted accounting principles. The consolidated balance sheet reflects the related consumer loans as receivables, and reflects proceeds from the sales of consumer loans through the warehouse facility, and will

reflect securitization proceeds, as indebtedness. Finance segment EBITA (loss) for the three months ended June 29, 2002 primarily represent operating costs and are included in selling, general and administrative expenses.

12. During the three and six months ended June 29, 2002, the Company recorded charges totaling $4.9 million for fixed asset impairments and lease termination and other costs related to closed retail sales centers. During the quarter ended June 30, 2001, the Company closed two homebuilding facilities, resulting in non-cash fixed asset impairment charges of $1.0 million. For the year-to-date period ended June 30, 2001, non-cash fixed asset impairment charges and lease termination and other costs related to closed operations totaled $8.7 million.

13. In June 2001 the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill and other intangible assets with indefinite lives not be amortized but instead be tested annually for impairment based on a reporting unit's fair value versus its carrying value. The Company adopted SFAS No. 142 in January 2002, which resulted in the cessation of the amortization of goodwill commencing on the first day of our fiscal year 2002. Following is a reconciliation, for the 2001 periods presented, of the Company's net income (loss) and earnings (loss) per share adjusted to exclude goodwill amortization expense, net of tax:

	Three Months Ended June 30, 2001	Six Months Ended June 30, 2001
	(In thousands except per share amounts)	
Reported net income (loss)	$ 490	$ (25,593)
Add back: Goodwill amortization (net of taxes of $720 and $1,400, respectively)	2,165	4,361
Adjusted net income (loss)	$ 2,655	$ (21,232)
Basic earnings (loss) per share as reported	$ 0.01	$ (0.54)
Goodwill amortization	0.05	0.09
Adjusted basic earnings (loss) per share	$ 0.06	$ (0.45)
Diluted earnings (loss) per share as reported	$ 0.01	$ (0.54)
Goodwill amortization	0.04	0.09
Adjusted diluted earnings (loss) per share	$ 0.05	$ (0.45)

In April 2002 the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," which no longer requires extinguishment of debt to be characterized as an extraordinary gain. As a result of the

issuance of SFAS 145, the gain on debt retirement totaling $5.9 million is included in the Company's operating loss for the three and six months ended June 29, 2002 rather than as an extraordinary gain as previously required under SFAS No.4.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal

Activities," which requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred rather than recognized at the date of an entity's commitment to an exit plan as currently required in accordance with Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Statement also establishes that fair value is the objective for initial measurement of the liability. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption by the Company of SFAS No. 146 at the beginning of fiscal 2003 will impact the manner in which the Company reports certain restructuring activities, including facility closures, employee severance and other exit activities. These charges will generally be recognized when the liability is incurred.

14. In response to continued negative information about the economy, consumer and floor plan financing availability for the industry, high industry repossession levels, recent reductions in industry shipments and incoming order rates at the Company's manufacturing facilities, the Company, on August 8, 2002, announced the closing or consolidation of 64 retail sales centers and seven homebuilding facilities across the country. These closures represent 35% of its current retail operations and 15% of its manufacturing facilities. The closure of 64 additional retail locations reduces the total number of retail locations it is operating to 117. Third quarter pre-tax charges for the retail and manufacturing closures will total approximately $44.1 million, consisting primarily of non-cash fixed asset impairment charges of $24.5 million, inventory write downs of $6.8 million, severance costs of $4.3 million, additional warranty costs of $3.5 million, and retail lease termination and other costs of $5.0 million. As a result of these closures, employee reductions are estimated at 1,500, or 15% of the total workforce.

15. Prior to April 2002, most of the subsidiaries included in the Company's consolidated financial statements were directly wholly owned by Champion Enterprises, Inc. In April 2002, CHB became the sole wholly owned subsidiary of the Company and CHB became the sole shareholder of almost all the other subsidiaries. At June 29, 2002, substantially all of CHB's subsidiaries were guarantors of the $150 million Senior Notes due 2007. Additionally, CHB has agreed to be a guarantor and substantially all of CHB's subsidiaries have agreed to be guarantors, on a basis subordinated to their guarantees of the Senior Notes due 2007, of the $170 million Senior Notes due 2009. The non-guarantor subsidiaries include the Company's foreign operations and its development companies.

Separate financial statements for each guarantor subsidiary are not included in this filing because each guarantor subsidiary is

wholly-owned and was fully, unconditionally, jointly and severally liable 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 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.

CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Three Months Ended June 29, 2002

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Consoli Elimin
			(In thousands)		
Net sales	$ -	$ 74,508	$ 326,463	$ 9,335	$ (48
Cost of sales	-	63,994	278,544	7,562	(48
Gross margin	-	10,514	47,919	1,773	
Selling, general and administrative expenses	-	13,421	52,242	2,057	
Goodwill impairment charges	-	-	97,000	-	
Closing-related expenses	-	-	4,900	-	
Gain on debt retirement	(5,870)	-	-	-	
Operating income (loss)	5,870	(2,907)	(106,223)	(284)	
Interest income	3,329	-	299	33	(3
Interest expense	(3,329)	(3,179)	(4,151)	(49)	3
Income (loss) before income taxes	5,870	(6,086)	(110,075)	(300)	
Income taxes	2,230	10,537	72,524	3,409	
Income (loss) before equity in income (loss) of consolidated subsidiaries	3,640	(16,623)	(182,599)	(3,709)	
Equity in income (loss) of consolidated subsidiaries	(202,931)	(186,308)	-	-	389
Net loss	$(199,291)	$(202,931)	$(182,599)	$ (3,709)	$ 389

CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Six Months Ended June 29, 2002

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries
			(In thousands)	
Net sales	$ -	$ 139,845	$ 600,614	$ 16,624
Cost of sales	-	121,975	516,776	13,617
Gross margin	-	17,870	83,838	3,007
Selling, general and administrative expenses	-	29,024	92,730	4,204
Goodwill impairment charges	-	-	97,000	-
Closing-related expenses	-	-	4,900	-
Gain on debt retirement	(5,870)	-	-	-
Operating income (loss)	5,870	(11,154)	(110,792)	(1,197)
Interest income	7,193	-	832	205
Interest expense	(7,193)	(3,201)	(9,585)	(115)
Income (loss) before income taxes	5,870	(14,355)	(119,545)	(1,107)
Income taxes	2,230	7,467	69,203	3,100
Income (loss) before equity in income (loss) of consolidated subsidiaries	3,640	(21,822)	(188,748)	(4,207)
Equity in income (loss) of consolidated subsidiaries	(214,777)	(192,955)	-	-
Net loss	$(211,137)	$(214,777)	$(188,748)	$ (4,207)

CHAMPION ENTERPRISES, INC.
Condensed Consolidating Balance Sheet
As of June 29, 2002

	Parent	CHB	Guarantor Subsidiaries	Non-guaranto Subsidiaries
Assets			(In thousands)	
Current assets				
Cash and cash equivalents	$ -	$ 72,908	$ 2,882	$ 9,846
Restricted cash	-	16,500	624	653
Accounts receivable, trade	-	12,044	47,246	2,346
Inventories	-	13,151	159,705	2,020
Other current assets	9,600	11,719	94,767	1,540
Total current assets	9,600	126,322	305,224	16,405
Loans receivable	-	-	6,145	-
Property and equipment, net	-	41,717	119,881	2,969
Goodwill, net	-	-	164,410	1,554
Investment in consolidated subsidiaries	278,957	388,811	91,768	4,828
Restricted cash	-	18,443	-	-
Other non-current assets	2,094	9,472	4,956	9,668
	$ 290,651	$ 584,765	$ 692,384	$ 35,424
Liabilities and Shareholders' Equity				
Current liabilities				
Floor plan payable	$ -	$ -	$ 10,345	$ 400
Accounts payable	-	14,033	52,343	1,736
Warehouse borrowings	-	-	2,103	-
Accrued warranty obligations	-	5,523	34,975	750
Accrued volume rebates	-	9,150	23,170	925
Other current liabilities	1,576	104,467	63,212	1,542
Total current liabilities	1,576	133,173	186,148	5,353
Long-term liabilities				
Long-term debt	170,000	157,572	14,330	2,965
Deferred portion of purchase price	-	-	14,000	-
Other long-term liabilities	-	17,027	14,114	150
	170,000	174,599	42,444	3,115
Intercompany balances	9,620	(122,727)	445,585	3,268
Redeemable convertible preferred stock	43,959	-	-	-
Shareholders' equity				
Common stock	48,822	1	60	3
Capital in excess of par value	39,362	613,336	225,646	30,022
Retained earnings (deficit)	(22,688)	(213,617)	(207,499)	(4,915
Accumulated other comprehensive income (loss)	-	-	-	(1,422
Total shareholders' equity	65,496	399,720	18,207	23,688
	$ 290,651	$ 584,765	$ 692,384	$ 35,424

CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 29, 2002

	Parent	CHB	Guarantor Subsidiaries	Non-guara Subsidiar
			(In thousands)	
Net cash provided by (used for) operating activities:	$ (9,609)	$ (2,734)	$ (7,389)	$ 1,50
Cash flows from investing activities:				
Acquisitions	--	--	(8,050)	-
Increase in loans receivable	--	--	(6,145)	-
Additions to property and equipment	--	(362)	(2,359)	(13
Investments in and advances to unconsolidated subsidiaries	--	--	--	(1,13
Investments in and advances to consolidated subsidiaries	(51,762)	(33,134)	81,711	3,18
Proceeds on disposal of fixed assets	--	--	3,069	-
Net cash provided by (used for) investing activities	(51,762)	(33,496)	68,226	1,91
Cash flows from financing activities:				
Increase (decrease) in floor plan payable, net	--	--	(60,251)	7
Payment of other long-term debt	--	(25)	(389)	(2
Proceeds from Senior Notes	--	145,821	--	-
Purchase of Senior Notes	(23,750)	--	--	-
Proceeds from warehouse borrowings	--	--	2,103	-
Increase in deferred financing costs	--	(1,466)	(1,800)	-
Increase in restricted cash		(34,943)	(624)	(
Preferred stock issued, net	23,810	--	--	-
Common stock issued, net	1,000	--	--	-
Net cash provided by (used for) financing activities	1,060	109,387	(60,961)	4
Net increase (decrease) in cash and cash equivalents	(60,311)	73,157	(124)	3,45
Cash and cash equivalents at beginning of period	60,311	(249)	3,006	6,38
Cash and cash equivalents at End of period	$ --	$ 72,908	$ 2,882	$ 9,84

CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Three Months Ended June 30, 2001

	Parent	CHB	Guarantor Subsidiaries	Non-guara Subsidiar
			(In thousands)	
Net sales	$ --	$ 74,712	$ 396,948	$ 8,9
Cost of sales	--	64,628	332,137	7,4
Gross margin	--	10,084	64,811	1,5
Selling, general and administrative expenses	--	13,324	52,379	2,1
Closing-related expenses	--	--	1,000	
Operating income (loss)	--	(3,240)	11,432	(6
Interest income	3,965	--	869	
Interest expense	(3,965)	(61)	(6,554)	(
Income (loss) before income taxes	--	(3,301)	5,747	(6
Income taxes (benefits)	--	(1,210)	2,776	(2
Income (loss) before equity in income (loss) of consolidated subsidiaries	--	(2,091)	2,971	(3
Equity in income (loss) of consolidated subsidiaries	490	--	--	
Net income (loss)	$ 490	$ (2,091)	$ 2,971	$ (3

CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Operations
For the Six Months Ended June 30, 2001

	Parent	CHB	Guarantor Subsidiaries	Non-guarantor Subsidiaries
			(In thousands)	
Net sales	$ --	$ 135,102	$ 699,077	$ 15,335
Cost of sales	--	122,077	593,194	13,024

Gross margin	--	13,025	105,883	2,311
Selling, general and administrative expenses	--	24,685	110,669	4,348
Closing-related expenses	--	1,000	7,700	
Operating loss	--	(12,660)	(12,486)	(2,037)
Interest income	7,693	--	1,449	110
Interest expense	(7,693)	(148)	(13,445)	(176)
Loss before income taxes	--	(12,808)	(24,482)	(2,103)
Income tax benefit	--	(4,730)	(8,270)	(800)
Loss before equity in income (loss) of consolidated subsidiaries	--	(8,078)	(16,212)	(1,303)
Equity in income (loss) of consolidated subsidiaries	(25,593)	--	--	--
Net loss	$ (25,593)	$ (8,078)	$ (16,212)	$ (1,303)

CHAMPION ENTERPRISES, INC.
Condensed Consolidating Balance Sheet
As of December 29, 2001

	Parent	CHB	Guarantor Subsidiaries	Non-guaran Subsidiari
Assets			(In thousands)	
Current assets				
Cash and cash equivalents	$ 60,311	$ (249)	$ 3,006	$ 6,38
Restricted cash	--	--	--	64
Accounts receivable, trade	--	8,446	30,457	1,20
Inventories	--	13,694	158,138	2,26
Deferred taxes and other current assets	479	12,091	127,102	1,85
Total current assets	60,790	33,982	318,703	12,36
Property and equipment, net	--	44,793	129,633	3,00
Goodwill, net	--	--	257,444	1,52
Investment in consolidated subsidiaries	440,786	1	130,900	4,43
Deferred taxes and other assets	3,143	6,834	53,581	12,57
	$ 504,719	$ 85,610	$ 890,261	$ 33,89

Liabilities and Shareholders' Equity				
Current liabilities				
Floor plan payable	$ --	$ --	$ 70,596	$ 32
Accounts payable	--	10,839	35,929	79
Accrued warranty obligations	--	5,888	35,955	69
Accrued volume rebates	--	12,082	26,801	1,04
Other current liabilities	2,280	90,053	64,112	91
Total current liabilities	2,280	118,862	233,393	3,77
Long-term liabilities				
Long-term debt	200,000	7,597	14,338	2,99
Deferred portion of purchase price	--	--	18,000	-
Other long-term liabilities	--	16,012	14,569	9
	200,000	23,609	46,907	3,08
Intercompany balances	8,434	(87,936)	414,301	94
Redeemable convertible preferred stock	20,000	--	--	-
Shareholders' equity				
Common stock	48,320	1	259	1
Capital in excess of par value	36,423	29,914	214,152	28,75
Retained earnings	189,262	1,160	(18,751)	(70
Accumulated other comprehensive income (loss)	--	--	--	(1,97
Total shareholders' equity	274,005	31,075	195,660	26,09
	$ 504,719	$ 85,610	$ 890,261	$ 33,89

CHAMPION ENTERPRISES, INC.
Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 30, 2001

	Parent	CHB	Guarantor Subsidiaries	Non-guaranto Subsidiaries
			(In thousands)	
Net cash provided by (used for) operating activities:	$ 1,894	$ 1,327	$ 26,723	$ (1,541)
Cash flows from investing activities:				
Acquisitions	--	--	(10,233)	--
Additions to property and equipment	--	(386)	(2,614)	(229)
Investments in and advances to unconsolidated subsidiaries	--	--	--	(1,819)
Investments in and advances to consolidated subsidiaries	(13,467)	441	11,985	1,041

Proceeds on disposal of fixed assets	--	--	1,494	--
Net cash provided by (used for) investing activities	(13,467)	55	632	(1,007)
Cash flows from financing activities:				
Decrease in floor plan payable, net	--	--	(29,101)	(23)
Increase (decrease) in other long-term debt	--	(22)	(348)	37
Common stock issued, net	590	--	--	--
Net cash provided by (used for) financing activities	590	(22)	(29,449)	14
Net increase (decrease) in cash and cash equivalents	(10,983)	1,360	(2,094)	(2,534)
Cash and cash equivalents at beginning of period	41,152	(1,413)	3,124	7,280
Cash and cash equivalents at End of period	$ 30,169	$ (53)	$ 1,030	$ 4,746

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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 JUNE 29, 2002
VERSUS THE THREE AND SIX MONTHS ENDED JUNE 30, 2001

CONSOLIDATED

	Three Months Ended	
	June 29, 2002	June 30, 2001
	(Dollars in millions)	
Net sales		
Manufacturing	$ 313.7	$ 351.2
Retail	96.6	129.4
Less: intercompany	(48.8)	(52.4
Total net sales	$ 361.5	$ 428.2
Gross margin	$ 60.2	$ 76.4
SG&A	67.7	67.8
Goodwill impairment charges	97.0	-
Closing-related expenses	4.9	1.0
Gain on debt retirement	(5.9)	-

Operating income (loss)	$ (103.5)	$ 7.6
As a percent of sales		
Gross margin	16.7%	17.8
SG&A	18.7%	15.8
Operating income (loss)	(28.6%)	1.8

	Six Months Ended	
	June 29, 2002	June 30, 2001
Net sales		
Manufacturing	$ 580.4	$ 611.7
Retail	176.7	237.8
Less: intercompany	(89.2)	(95.0
Total net sales	$ 667.9	$ 754.5
Gross margin	$ 104.7	$ 121.2
SG&A	126.0	139.7
Goodwill impairment charges	97.0	-
Closing-related expenses	4.9	8.7
Gain on debt retirement	(5.9)	-
Operating loss	$ (117.3)	$ (27.2
As a percent of sales		
Gross margin	15.7%	16.1
SG&A	18.9%	18.5
Operating loss	(17.6%)	(3.6

Net sales for the quarter and year-to-date periods ended June 29, 2002 decreased from the same periods in 2001 due primarily to our operating fewer retail sales centers and decreasing manufacturing and retail sales volumes due to industry conditions, partially offset by sales price increases in both the manufacturing and retail segments. Sales in the first half of 2002 were affected by the continuing reduction in chattel lending availability, the effects of Conseco Finance Corp.

("Conseco") withdrawing from the wholesale floor plan lending business, continuing high industry repossession levels and Texas legislation, effective in 2002, which limits consumer use of chattel financing to purchase a manufactured home. During the quarter we closed 33 retail sales centers and consolidated one manufacturing facility. At June 29, 2002 we were operating 46 manufacturing facilities and 181 sales centers compared to 49 manufacturing facilities and 230 sales centers at June 30, 2001.

Gross margin dollars for the three months ended June 29, 2002 declined $16.2 million from the comparable quarter of 2001, primarily due to lower sales volume in the second quarter of 2002 versus the prior year. Gross margin declined as a percent of sales due to a higher manufacturing overhead rate related to fixed costs and inefficiencies from lower production volumes and lower backlogs, and increased manufacturing material costs, partially offset by increased wholesale and retail average sales prices. Gross margin dollars for the six months ended June 29, 2002 declined $16.5 million from the comparable period of 2001 primarily due to the $87 million decline in consolidated net sales. Gross margin for the six month period declined as a percent of sales due to the same factors that affected the second quarter, as discussed above.

Second quarter 2002 selling, general and administrative expenses ("SG&A") remained constant despite the decrease in sales volume, causing SG&A as a percentage of sales to increase from 15.8% in 2001 to 18.7% in 2002. Expenses from our newly acquired finance operation added $1.9 million to SG&A expense. SG&A as a percentage of sales increased due to stable fixed costs versus lower sales volumes. SG&A in 2001 included $2.9 million of goodwill amortization which was not incurred in 2002 as a result of implementing SFAS No. 142 in January 2002. SG&A for the six-month period ended June 29, 2002 decreased 10% versus the prior year. Lower SG&A is primarily due to the reduction in sales and operating fewer manufacturing facilities and sales centers and the $5.8 million reduction of goodwill amortization, which was eliminated in 2002 due to the implementation of SFAS No. 142.

For the three and six months ended June 29, 2002, our operating loss includes $1.9 million for fixed asset impairment charges and $3.0 million for lease termination and other costs related to the closing of 33 retail sales centers in the second quarter 2002. In the comparable quarter last year, our operating loss included $1.0 million for fixed asset impairment charges. For the six months ended June 30, 2001, operating loss included $6.5 million of fixed asset impairment charges and $2.2 million of lease termination and other costs related to the closing of four homebuilding facilities and 30 retail sales centers. In the second quarter 2002, the Company purchased and retired $30 million of our Senior Notes due 2009 for approximately $23.8 million plus accrued interest of $1.0 million and recognized a gain on extinguishment of debt totaling $5.9 million.

During the quarter ended June 29, 2002, we re-evaluated our goodwill and deferred tax assets and as a result recorded non-cash charges of $97 million pre-tax for retail goodwill impairments and $120 million for a deferred tax asset valuation allowance. See additional discussion under "Accounting Estimates and Assumptions."

MANUFACTURING OPERATIONS

	Three Months Ended	
	June 29, 2002	June 30, 2001
Net sales (in millions)	$ 313.7	$ 351.
EBITA (in millions)	$ 10.4	$ 19.
EBITA margin %	3.3%	5.
Homes sold	9,124	10,91
Floors sold	16,778	19,51
Multi-section mix	80%	7
Average home price	$ 33,000	$ 30,80

	Six Months Ended	
	June 29, 2002	June 30, 2001
Net sales (in millions)	$ 580.4	$ 611.
EBITA (in millions)	$ 11.7	$ 8.
EBITA margin %	2.0%	1.
Homes sold	16,869	19,12
Floors sold	31,213	34,21
Multi-section mix	81%	7
Average home price	$ 33,100	$ 30,70
Manufacturing facilities at period end	46	4

Manufacturing net sales for the quarter ended June 29, 2002 decreased 11% compared to the second quarter of 2001 as a result of selling 16% fewer homes partially offset by a 7% increase in average selling prices. For the quarter, shipments of HUD code homes declined 18% and shipments of non-HUD code homes increased 8% from shipments in the second quarter of 2001. Wholesale shipments of homes to our company-owned retailers and independent retailers were off 6% and 18%, respectively, from shipment levels in the second quarter of 2001. Manufacturing sales for the six months ended June 29, 2002 decreased 5% compared to the same period last year due to a 12% decrease in the number of homes sold partially offset by an 8% increase in average home selling price. Sales from our four manufacturing facilities in Texas declined approximately $15 million and $24 million, respectively, in the quarter and six month period ended June 29, 2002, as compared to the comparable periods of 2001. Manufacturing sales volume was affected by the continuing reduction of chattel lending available to consumers, the Texas legislation which limits consumer use of chattel financing to purchase a manufactured home, a reduced number of company-owned retail sales centers and the effects of Conseco withdrawing from the floor plan lending business. Conseco had been the manufactured housing industry's largest floor plan lender. In April 2002, Conseco stopped approving and funding new floor plan requests. In May 2002, Conseco announced its intention to withdraw from the floor plan lending business by December 31, 2002, and asked its retail customers to pay off their floor plan balances by mid-July 2002, or enter into arrangements to pay off their balances by December 31, 2002. We believe our wholesale shipments in the quarter were impacted as independent retailers transitioned to alternative floor plan lenders.

According to data reported by the National Conference of States on Building Codes and Standards, U.S. industry wholesale shipments of HUD code homes for the first and second quarters of 2002 were comparable to and declined 9.6% from, respectively, shipments in the comparable 2001 periods. Of our total wholesale shipments for the quarter, 85% were to independent retailers and builders/developers and 15% were to our company-owned sales centers. Due to market conditions, during the second quarter of 2002 we closed one manufacturing facility.

Manufacturing EBITA in the second quarter of 2002 decreased $9 million from the prior year, primarily due to reduced gross margin dollars, as a result of reduced sales and increased material costs that were only partially offset by

increased selling prices. For the quarter ending June 29, 2002, manufacturing EBITA as a percent of sales declined 2.2% from the comparable quarter of 2001 due to a higher overhead rate related to fixed costs and inefficiencies from lower production volumes and lower backlogs, and SG&A which only declined slightly from prior year levels.

Although retailer orders can be cancelled at any time without penalty, and unfilled orders are not necessarily an indication of future business, our unfilled wholesale orders for housing at June 29, 2002 totaled approximately $26 million at the 46 plants operated, compared to $43 million at 49 plants at June 30, 2001.

RETAIL OPERATIONS

	Three Months Ended	
	June 29, 2002	June 30, 2001
Net sales (in millions)	$ 96.6	$ 129
EBITA (loss) (in millions)	$ (13.8)	$ (1
EBITA (loss) margin %	(14.3%)	(1.
New homes sold	1,430	2,1
Pre-owned homes sold	376	5
Total homes sold	1,806	2,7
% Champion-produced new homes sold	96%	8
New home multi-section mix	78%	7
Average new home price	$ 62,600	$ 55,9
Average number of new homes sold per sales center per month	2.4	3

	Six Months Ended	
	June 29, 2002	June 30, 2001
Net sales (in millions)	$ 176.7	$ 237.8
EBITA (loss) (in millions)	$ (21.9)	$ (16.7)
EBITA (loss) margin %	(12.4%)	(7.0%)
New homes sold	2,624	4,007
Pre-owned homes sold	723	1,042
Total homes sold	3,347	5,049
% Champion-produced new homes sold	95%	85%
New home multi-section mix	78%	71%
Average new home price	$ 62,100	$ 55,700
Average number of new homes sold per sales center per month	2.1	2.8
Average number of new homes in inventory		

per sales center at period end	16	15
Sales centers at period end	181	230

Retail sales for the three and six months ended June 29, 2002 decreased 25% and 26%, respectively versus the same periods last year due to our operating fewer retail sales centers and selling fewer homes per sales center, partially offset by higher average selling prices. In the second quarter of 2002 we operated an average of 198 sales centers, 14% lower than the average of 230 sales centers operated in the second quarter of 2001. Sales per sales center through the first six months of 2002 were affected by the continuing reduction of chattel lending availability, the high level of competing repossession sales, the lengthening of the sales cycle because of the industry shift to more real estate mortgages, and the Texas legislation, effective in 2002, that limits consumer use of chattel financing to purchase a manufactured home. Approximately 25% of our company-owned retail sales centers are located in Texas. Our retail sales in Texas declined approximately $15 million and $29 million, respectively, in the quarter and six month periods ended June 29, 2002, versus the comparable periods of 2001. Average selling prices increased due in part to selling a greater proportion of higher priced, multi-section homes. Based on data reported by Statistical Surveys, Inc., and our estimates, we believe that industry retail sales of new homes in the first five months of 2002 dropped approximately 7% from prior year levels.

Retail EBITA (loss) for the quarter ended June 29, 2002 worsened by $12.0 million compared to the second quarter of 2001. Approximately $4.9 million of this change was comprised of $1.9 million for fixed asset impairment charges and $3.0 million for lease termination and other costs related to the closing of 33 retail sales centers. Gross margin dollars declined by $6 million due to the reduction in retail sales volume.

The 97 retail sales centers that we closed or consolidated in the quarter ended June 29, 2002, or whose closure or consolidation was announced on August 8, 2002, incurred operating losses, excluding floor plan interest charges, totaling $8.5 million in the six months ended June 29, 2002.

CONTINGENT REPURCHASE OBLIGATIONS

We are contingently obligated under repurchase agreements with certain lending institutions that provide wholesale floor plan financing to independent retailers. At June 29, 2002 the maximum contingent repurchase obligation was approximately $270 million, without reduction for the resale value of the homes. For the six months ended June 29, 2002, Champion paid $2.9 million and incurred losses of $0.5 million for the repurchase of 100 homes. In the same period last year, the Company paid $17.0 million and incurred losses of $3.3 million for the repurchase of 562 homes. Our maximum contingent repurchase obligation has declined $30 million since year end and $50 million from a year ago due to reduced inventory at our independent retailers and due to an estimated 34% of independent retailer inventory being financed at local banks, from whom we have historically suffered only negligible repurchase losses.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents totaled $85.6 million at June 29, 2002. For the six months ended June 29, 2002, $145 million was provided by the net proceeds from the issuance of the Senior Notes due 2007, $23.8 million from the net proceeds of the preferred stock issuance and $2 million from proceeds on the Company's warehouse facility placements. Expenditures during the first six months of 2002 included $18 million of net cash used for operations, $60 million to reduce floor plan borrowings, $35 million to cash collateralize our letters of credit, $24 million for the repurchase of Senior Notes due 2009, $8 million for acquisition related payments, $6 million in finance loans receivable, $3 million

for

capital improvements and $1 million for investments in and advances to unconsolidated subsidiaries.

During 2002, accounts receivable and accounts payable increased due to year-end levels generally being low due to seasonality, holidays and vacations. Other current assets increased due to cash collateral deposits totaling $12.9 million made for insurance and surety bond requirements. Refundable income taxes related to the tax benefit of our current year to date operating loss were offset by the $17.5 million income tax refund received during the second quarter of 2002. Other non-current assets increased due to the increase in deferred financing costs associated with the Senior Notes due 2007 and the warehouse credit facility.

During the quarter ended June 29, 2002, the following transactions were completed:

- We received net proceeds of $23.8 million from the issuance of $25 million of redeemable convertible preferred stock. The net proceeds were used to cash collateralize a portion of our $35 million of letters of credit in connection with the termination of our revolving credit agreement, as discussed below.

- On April 22, 2002 we terminated our revolving credit agreement for a $75 million secured line of credit.

- We arranged to have a bank provide $35 million of letters of credit on a fully cash collateralized basis.

- One of our subsidiaries issued $150 million of Senior Notes due 2007 with interest payable semi-annually at an annual rate of 11.25%. The net proceeds from the offering of approximately $145 million were used to finance the acquisition of the manufactured housing loan origination business of CIT Group/Sales Financing, Inc. ("CIT"), to repay a portion of our debt, including a significant portion of our floor plan payable, to provide working capital for our existing business segments and our new consumer financing business, and for general corporate purposes. The Senior Notes due 2007 contain covenants, which among other things limit the Company's ability to incur additional indebtedness, issue additional redeemable preferred stock, pay dividends on or repurchase common stock, make certain investments and incur liens on assets. The debt incurrence covenant in the Notes currently limits additional debt to 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; warehouse financing meeting certain parameters up to $200 million; other debt up to $30 million; and ordinary course indebtedness 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 guaranties of additional debt otherwise permitted to be incurred.

- We completed the acquisition of the manufactured housing loan origination business of CIT for approximately $5 million.

- We arranged a $150 million warehouse facility to support our finance company's future operations. Consumer loans originated by our finance company will be sold in exchange for cash proceeds under the warehouse line.

- We purchased and retired $30 million of our Senior Notes due 2009 for approximately $23.8 million plus accrued interest of $1.0 million.

- We repaid approximately $53 million of our floor plan borrowings, including substantially all amounts with Conseco.

We have used demand borrowings from floor plan lenders to finance a significant portion of our retail inventory of new homes. We intend to maintain floor plan lines of credit totaling approximately $30 million with three floor plan lenders. Our outstanding balance of floor plan borrowings at June 29, 2002 totaled approximately $11 million.

We plan to spend less than $10 million in 2002 on capital expenditures.

The warehouse facility has been extended to a consolidated third party special purpose entity, has a one year term and will provide for up to $150 million of revolving credit availability based on, and secured by, manufactured home loans and contracts acquired from us by the consolidated third party special purpose entity. The consolidated third party entity functions to ensure that the warehouse facility provider takes clear title to the loans it acquires. Proceeds from the

warehouse facility will be used to fund a portion of the purchase price of these loans and contracts by the consolidated third party entity from a consolidated special purpose subsidiary owned by the Company. The remainder of the purchase price will be financed by a subordinated note from the consolidated third party entity to our consolidated special purpose subsidiary. Our special purpose subsidiary will, in turn, use the cash proceeds received from the consolidated third party entity to pay a portion of the purchase price of the loans and contracts from our finance company. Our finance company will use these proceeds and other cash from operations as well as a portion of the proceeds from the issuance of the Senior Notes due 2007 to purchase manufactured home loans and contracts from company-owned and independent retailers.

The warehouse facility contains covenants requiring the Company to maintain minimum interest coverage ratios and tangible net worth, as defined therein; maintain certain minimum unsecured debt ratings from two of the national ratings agencies; and perform certain other duties thereunder. Subsequent to quarter end, the consolidated third party special purpose entity entered into waiver agreements to cure its noncompliance with the minimum interest coverage ratio covenant for the quarter ended June 29, 2002 and to cure noncompliance with the minimum tangible net worth covenant as of June 29, 2002 and provide for a lower minimum tangible net worth requirement through August 30, 2002.

During the third quarter of 2002, we are seeking and will need to obtain amendments to the performance covenants of the $150 million warehouse facility

in order to ensure our continuing compliance therewith. Also, if our operating results do not improve we may again become noncompliant with one or more of the covenants, which, if not cured or amended, would result in default under the facility. In an event of default, the agent bank could discontinue making further advances under the facility and enact alternate "waterfall" provisions thereunder that would reduce or eliminate current payments to the consolidated third party special purpose entity from the underlying consumer loans. If the agent were to discontinue further advances, we would seek other sources of capital for our consumer finance operations.

We also have a $15 million floor plan financing facility that contains a covenant requiring us to maintain minimum earnings before interest, taxes, depreciation and amortization (EBITDA), as defined. If our operating results do not improve, we may not be in compliance with this covenant, which could result in the lender terminating the credit line and causing such debt to become immediately due and payable. As of June 29, 2002, the Company had approximately $2 million outstanding under this facility.

In August 2002, Moody's Investors Service and Standard & Poor's announced that they have placed under review, for possible downgrade, the Company's senior implied credit ratings and the ratings on the Company's Senior Notes due 2007 and Senior Notes due 2009. Because the $150 million warehouse facility arranged by the Company in April 2002 requires that we maintain certain minimum unsecured debt ratings, a negative ratings action by Moody's or Standard & Poor's could cause a default under that facility. A negative ratings action also could affect the Company's ability to obtain or maintain various forms of business credit, including but not limited to letters of credit, surety bonds, trade payables and floor plan financing, or could result in the Company having to place additional collateral related thereto.

From time to time, as a sufficient amount of manufactured home loans and contracts that satisfy established underwriting guidelines are accumulated, we expect the warehouse facility will be repaid, in whole or in part, with proceeds from the sale of debt obligations or other securities in the asset-backed securities markets. We expect these debt obligations or other securities will be secured by the underlying manufactured home loans and contracts purchased by the consolidated special purpose entities from our new consumer finance business.

We believe that our cash balances, cash flows from operations, availability under our floor plan arrangements, proceeds under our warehouse facility from sales of consumer loans originated by our new finance business, and proceeds from expected asset-backed securitizations in the capital markets of loans originated, will be adequate to meet our anticipated financing needs, operating requirements and capital expenditures for the next twelve months. In the event one or more of our capital resources were to become unavailable, we would revise our operating strategies accordingly.

The restructuring actions announced in August 2002 result in estimated cash charges totaling approximately $13 million pretax. These closures and the expected operating losses should result in a tax refund of greater than $40 million in 2003.

We had significant contingent obligations at June 29, 2002, including a maximum potential wholesale repurchase obligation of approximately $270 million, surety bonds and letters of credit totaling $33 million (net of $45 million of cash collateral) and guarantees by certain of our consolidated subsidiaries of $6.6 million of debt of unconsolidated

subsidiaries. In addition, the Company is contingently liable under an unconditional guaranty of a consolidated third party special purpose entity's $150 million warehouse facility to support our finance company's operations in an amount limited to $15 million. At June 29, 2002, $2.1 million was outstanding under the warehouse facility and is reflected in our consolidated balance sheet. If we were required to fund a material amount of these contingent obligations, our liquidity would be adversely affected.

SUBSEQUENT EVENTS

In response to continued negative information about the economy, consumer and floor plan financing availability for the industry, high industry repossession levels, recent reductions in industry shipments and incoming order rates at the Company's manufacturing facilities, the Company, on August 8, 2002, announced the closing or consolidation of 64 retail sales centers and seven homebuilding facilities across the country. These closures represent 35% of our current retail operations and 15% of our manufacturing facilities. The closure of 64 additional retail locations reduces the total number of retail locations we operate to 117. Third quarter pre-tax charges for the retail and manufacturing closures will total approximately $44.1 million, consisting primarily of non-cash fixed asset impairment charges of $24.5 million, inventory write downs of $6.8 million, severance costs of $4.3 million, additional warranty costs of $3.5 million, and retail lease termination and other costs of $5.0 million. As a result of these closures, employee reductions are estimated at 1,500, or 15% of the total workforce.

ENTRY INTO CONSUMER FINANCE BUSINESS

In April 2002, we acquired CIT's manufactured housing consumer loan origination business and certain related agreements for approximately $5 million. This business operates as HomePride Finance Corp. ("HPFC"), an indirect wholly owned subsidiary of the Company. With this transaction we acquired $0.5 million of fixed assets, we were assigned two office leases and we obtained the operating procedures and policies and the customer lists for the business. We did not purchase any of the loan portfolios or related obligations of CIT's loan origination business. The CIT loan origination platform has technologically advanced systems, with nearly 100% of loan applications received through the Internet. We have entered into agreements whereby, for a period of three years, CIT is providing its loan origination and servicing systems to us and is servicing the loans we originate. We have agreed to pay CIT $249,000 annually plus a monthly servicing fee based on 8.33 basis points of loans receivable up to $200 million and 6.25 basis points on loans receivable in excess of $200 million and a monthly loan origination fee based on 25 to 50 basis points of the amount of loans originated, subject to a minimum fee of $100,000 per month.

Entry into consumer finance complements both our manufacturing and retail operations. We have been assessing our entry into consumer finance since expanding our manufactured housing retail operations in 1998. We believe that the departure of several industry consumer chattel lenders during the past three years and other conditions resulting from the recent industry downturn present us the opportunity to capitalize on reduced competition, enhanced underwriting practices and other favorable trends in the manufactured home consumer lending industry. We are building upon CIT's manufactured housing loan origination platform by integrating CIT's disciplined underwriting practices with our retail resources and industry knowledge under the direction of a senior management team with over 16 years of manufactured home consumer lending experience.

HPFC is headquartered in Overland Park, Kansas, has an office in Sacramento, California, and employs approximately 50 people. We are funding loans to consumers who purchase manufactured homes from both company-owned and independent retailers. We also plan to originate some loans for purchases of

high quality pre-owned manufactured homes. We have implemented a finance participation model under which our company-owned retailers will participate in the management of delinquent loans they originate and the remarketing of repossessed homes to improve loan performance and mitigate loan losses. This finance participation model is also intended to produce higher quality loans and stronger retail location manager retention.

The loan origination team performs monthly quality and audit loan reviews. We subject independent retailers to a thorough approval process before accepting loan applications from them. We use the credit bureau score provided by at least one of the three major credit reporting agencies to determine pricing and help assess credit risk. Additionally, each application is evaluated for borrower stability, collateral value, willingness to repay, and ability to pay.

We require a down payment in the form of cash, the trade-in value of a previously-owned manufactured home, and/or the fair market value of equity in real property pledged as additional collateral. The balance of the purchase price is financed using installment sales contracts or mortgage instruments providing for a purchase money security interest in the manufactured home and a mortgage on any real property pledged as additional collateral. Generally, the contracts provide for equal monthly payments over a period of seven to 30 years at fixed rates of interest. We believe that disciplined loan origination policies, plus the alignment of the interests of our company-owned retailers and our retail finance company will result in higher quality loans, reduced loan delinquencies from higher consumer satisfaction, improved collections and greater recovery on repossessed homes.

We have used a portion of the proceeds of the April 2002 issuance of $150 million Senior Notes due 2007, together with cash from operations and proceeds from the sale of manufactured home loans and contracts in connection with the warehouse facility, to provide working capital for our consumer finance business. We expect long-term financing to be provided by asset-backed securitization transactions in the capital markets.

We intend to structure sales of originated consumer loans under our warehouse facility and asset-backed securitizations in the capital markets as collateralized financing transactions under generally accepted accounting principles ("GAAP"). Under GAAP, our consolidated balance sheet reflects the related consumer loans as receivables, and proceeds from the sales of consumer loans through the warehouse facility and securitizations as indebtedness. Our consolidated income statement will reflect interest income and other income earned from holding the consumer loans as finance revenues. Finance costs and expenses include interest expense from indebtedness under the warehouse facility and securitizations, credit losses and operating costs.

ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with 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. With the recently announced restructuring, each of

these reserves are being evaluated. Following is a description of each accounting policy requiring significant judgments and estimates:

Goodwill

The Company tests for goodwill impairment in accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". The Company evaluates each reporting unit's fair value versus its carrying value annually 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, the Company calculates 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. As a result of the continued downturn in the manufactured housing industry in June 2002 we announced the closure of 33 retail sales centers and one manufacturing facility and in August 2002 we announced the closure or consolidation of 64 retail sales centers and seven manufacturing facilities. In connection with the significant reduction in our retail operations, the Company re-evaluated the fair value of its retail goodwill in accordance with SFAS No. 142. As a result, we recorded a non-cash impairment charge of $97 million for retail goodwill in the quarter ended June 29, 2002. Significant changes in the estimates and assumptions used in calculating the fair value of goodwill or differences between estimates and actual results could continue to have a material adverse impact on future operating results.

Deferred Tax Assets

Deferred tax assets and liabilities are determined based on the 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. The Company periodically evaluates the realizability of its 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." It further states, "forming a conclusion that a valuation allowance is not needed is difficult when there is negative evidence such as cumulative losses in recent years."

We incurred pretax losses in 2000 and 2001 and through the first half of 2002 totaling $391 million, including goodwill impairment charges of $97 million in 2002 and $190 million in 2000. Our industry continues to be challenged by limited availability of consumer chattel financing, high industry repossession levels, and reductions in wholesale floor plan lending availability and a negative economic outlook resulting in a continued decline in wholesale shipments and retail sales. In the absence of specific favorable factors, application of SFAS No. 109 require a 100% valuation allowance for any net deferred tax asset when a company has cumulative financial accounting losses, excluding unusual items, over several years. Accordingly, after consideration of these factors in the quarter ended June 29, 2002, we provided a 100% valuation allowance against our deferred tax assets, which totaled $120 million. 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.

Because of provisions in the tax law which will allow us to receive a carryback refund for taxable losses incurred in 2002, in determining the amount of

the deferred tax asset valuation allowance we had to estimate the current tax deductibility of certain costs and charges. These estimates are subject to change. Any differences between these current estimates and actual values determined at the end of this fiscal year will result in a change to the valuation allowance which will be reflected in results of operations in the third or fourth quarter of the year.

Property, Plant and Equipment

The recoverability of long-lived assets 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 price, appraised value 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. A significant change in these estimates and assumptions could have a material adverse impact on future operating results.

Reserves for Self-Insured Risks

The Company is self-insured for a significant portion of its workers' compensation, general and products, auto liability, health and property insurance. 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 the Company's outside insurance carriers, which historically have been greater than the Company's own estimates. Although the Company believes that its estimates are reasonable based on its evaluation of the factors listed above, the Company plans to obtain, by year end, a review of such estimates by an independent third party. A revision of the Company's estimated insurance costs based on such a review or a significant change in the factors described above could have a material adverse impact on future operating results. We maintain excess liability insurance with outside insurance carriers to minimize our risks related to catastrophic claims.

Warranty Reserves

Champion's manufacturing operations provide the retail homebuyer with a twelve-month warranty from the date of retail purchase. Estimated warranty costs are accrued as cost of sales at the time the manufacturing segment records the 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 12 month warranty period, and the historical average costs incurred to service a home. A significant change in these factors could have a material adverse impact on future operating results.

Wholesale Repurchase Reserves

The majority of the Company's manufacturing sales to independent retailers are made pursuant to repurchase agreements. 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 and the cost of such repurchases and the historical losses incurred as well as the current inventory levels held at Champion's independent retailers. In addition, the Company monitors the risks associated with its independent retailers and considers these risks in its evaluation of the wholesale repurchase reserve. A significant change in any of these factors could have a material adverse impact on future operating results.

FORWARD LOOKING STATEMENTS AND RISK FACTORS

Certain statements contained in this Report, including our plans and beliefs regarding goals, ability to implement retail, manufacturing and finance strategies and the effect of those strategies, availability of liquidity and financing, new market initiatives and strategies, anticipated capital expenditures, outlook for the manufactured housing industry in particular and

the economy in general, availability of wholesale and consumer financing, characterization of and our ability to control our contingent liabilities, demographic trends, and our ability to maintain supply and distribution networks could be construed to be forward looking statements within the meaning of the Securities Exchange Act of 1934. In addition, we may 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 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 affect our operating results or financial condition.

SIGNIFICANT LEVERAGE - OUR SIGNIFICANT DEBT COULD ADVERSELY AFFECT OUR FINANCIAL HEALTH 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 of June 29, 2002, we had long-term debt of approximately $345 million, floor plan payables of approximately $11 million and warehouse borrowings of approximately $2 million. 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 some of our 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 sufficient cash flows from operations and proceeds may not be available to us from sales of manufactured home loans and contracts in connection with the warehouse facility and asset-backed securitization transactions in an amount 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 - THE CURRENT DOWNTURN IN THE MANUFACTURED HOUSING INDUSTRY HAS ADVERSELY AFFECTED OUR OPERATING RESULTS. IF THE CURRENT DOWNTURN DOES NOT REVERSE, OUR SALES COULD DECLINE AND WE MAY SUFFER FURTHER LOSSES.

Since mid-1999 the manufactured housing industry has experienced declining wholesale shipments, tightened consumer credit standards, excess retail locations and inventory, reduced consumer financing availability, high consumer repossession levels and higher interest rates on manufactured housing loans. Based on reports published by the National Conference of States on Building Codes and Standards, or NCSBCS, industry wholesale shipments of manufactured housing decreased 5.3% for the first six months of 2002 versus 2001, 23% from 2000 to 2001 and 28% from 1999 to 2000. Based on data reported by Statistical Surveys, Inc. and other sources, we estimate that industry retail sales of new homes declined 7% for the first five months of 2002 versus 2001, 25% from 2000 to 2001 and 17% from 1999 to 2000. In addition, we estimate approximately 3,500 retail locations, or approximately 37% of industry locations, and 100 manufacturing facilities, or approximately 30% of industry manufacturing facilities, have closed since mid-1999. Largely

as a result of these industry conditions, since mid-1999 and including the restructuring actions announced in August 2002, we have closed 29 homebuilding facilities in an attempt to return to profitability. Since June 2000, we have closed 196 retail sales centers. These downsizing efforts have resulted in closing-related expenses and fixed asset impairment charges. Additionally, in 2000 and 2002 we recorded goodwill impairment charges totaling $287 million and in 2002 recorded a valuation allowance for 100% of our deferred tax assets, or $120 million. For the first six months of 2002, we have reported pretax losses of $32.1 million excluding goodwill impairment charges. In 2001 and 2000, we reported pretax losses of $41.3 million and $30.6 million, respectively, excluding goodwill impairment charges. If the current downturn in the industry continues, our sales could continue to decline and we may incur further losses including additional closures or consolidations of existing operations, fixed asset impairment charges and goodwill impairment charges.

OUR COMMON STOCK MARKET PRICE IS DEPRESSED AND MAY CONTINUE TO DECLINE OR BE HIGHLY VOLATILE GIVEN CURRENT INDUSTRY AND ECONOMIC CONDITIONS.

Our Company's closing common stock price was $27.38 on January 2, 1999, before the industry downturn in mid-1999. The trading value of our stock has declined to $2.88 as of August 14, 2002. The market price of our common stock is 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 our common stock market price in the future.

FLUCTUATIONS IN OPERATING RESULTS - THE CYCLICAL AND SEASONAL NATURE OF THE MANUFACTURED HOUSING MARKET CAUSES OUR REVENUES AND OPERATING RESULTS TO FLUCTUATE. WE EXPECT THIS FLUCTUATION TO 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:

- 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 economic, demographic and seasonal factors, our revenues and operating results fluctuate, and we expect them to 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, CURTAILED LENDING ACTIVITY AND INCREASED INTEREST RATES AMONG CHATTEL, OR HOME-ONLY, RETAIL LENDERS HAVE REDUCED OUR SALES. IF CHATTEL FINANCING WERE TO BECOME FURTHER CURTAILED OR UNAVAILABLE, WE MAY EXPERIENCE FURTHER SALES DECLINES.

The consumers who buy our homes have historically secured retail financing from third party lenders. The availability, terms and costs of retail financing depend on the lending practices of financial institutions, governmental policies 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 maturity than a consumer seeking to finance the purchase of land and the home. Manufactured home chattel financing is at times more difficult to obtain than financing for site-built homes. Since 1999, home-only lenders have tightened the credit underwriting standards and increased interest rates for loans to purchase manufactured homes, which has reduced lending volumes and caused our sales to decline. On August 9, 2002, Conseco, the parent company of Conseco Finance, announced that a "radical change" in its capital structure is required. Conseco Finance has historically been one of the

largest chattel finance companies in the manufactured housing industry. While Conseco stated that Conseco Finance will not be directly involved in the planned restructuring, we do not know what impact the restructuring may have on Conseco Finance's manufactured home chattel lending business, or the related impact on our retail and manufacturing operations. If chattel financing were to become further curtailed or unavailable, we may experience further retail and manufacturing sales declines.

WHOLESALE FINANCING AVAILABILITY - REDUCED NUMBER OF FLOOR PLAN LENDERS AND REDUCED AMOUNT OF CREDIT ALLOWED TO INDUSTRY RETAILERS MAY RESULT IN LOWER INVENTORY LEVELS AND LOWER SALES AT OUR INDEPENDENT RETAILERS AND FEWER SALES CENTERS, WHICH COULD ALSO AFFECT OUR LEVEL OF WHOLESALE SHIPMENTS TO THESE

RETAILERS.

Independent retailers of our manufactured homes generally finance their inventory purchases with wholesale floor plan financing provided by lending institutions. Primarily the number of floor plan lenders and their lending limits affects the availability of wholesale financing. During the past five years some wholesale lenders have exited the industry or curtailed their floor plan operations while a smaller number have entered or expanded their floor plan operations. Conseco Finance has historically been the largest floor plan lender, previously providing about 25% of the industry's wholesale financing. Conseco Finance discontinued approving and funding new floor plan loan requests commencing April 2002. In May 2002, Conseco Finance announced its intention to withdraw from the floor plan lending business by December 31, 2002, and asked its retail customers to pay off their floor plan balances by mid-July 2002, or enter into an arrangement to pay off their balances by December 31, 2002. Reduced availability of floor plan lending may affect our independent retailers' inventory levels of new homes, their 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 reduced number of sales centers.

CONTINGENT LIABILITIES - WE HAVE, AND WILL CONTINUE TO HAVE, SIGNIFICANT CONTINGENT REPURCHASE AND OTHER OBLIGATIONS, SOME OF WHICH MAY BECOME ACTUAL OBLIGATIONS THAT WE MUST REPAY.

In connection with a floor plan arrangement for our wholesale 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, for a period of 12 to 15 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 amount of any damage to the home and any missing appliances. Our maximum aggregate potential contingent repurchase obligation at June 29, 2002 was approximately $270 million, before any resale value of the homes. This amount compares to $300 million at the beginning of the year and $320 million a year earlier. During the first six months of 2002, we paid $2.9 million and incurred losses of $0.5 million under repurchase agreements related to 100 homes. We may be required to honor some or all of our contingent repurchase obligations in the future and we may suffer additional losses with respect to, and as a consequence of, these repurchase agreements.

At June 29, 2002, we also had contingent debt obligations, surety bonds and letters of credit totaling $33 million (net of $45 million of cash collateral) and guarantees by certain of our consolidated subsidiaries of $6.6 million of debt of unconsolidated subsidiaries. In addition, the Company is contingently liable under an unconditional guaranty of a consolidated third party special purpose entity's $150 million warehouse facility to support our finance company's operations in an amount limited to $15 million. If we were required to fund a material amount of these contingent obligations, our liquidity would be adversely affected.

DEPENDENCE UPON INDEPENDENT RETAILERS - IF WE ARE UNABLE TO ESTABLISH OR MAINTAIN RELATIONSHIPS WITH INDEPENDENT RETAILERS WHO SELL OUR HOMES, OUR SALES COULD DECLINE.

During 2001, approximately 79% of our wholesale 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 one or more of our markets, sales in those markets could decline.

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 EXPAND OR MAINTAIN OUR BUSINESS.

We depend on our cash balances, cash flows from operations, floor plan facilities, surety bond and insurance programs, and proceeds from sales of manufactured home loans and contracts in connection with the warehouse facility, and will depend on anticipated proceeds of asset-backed securitization transactions, 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 have decreased sources of floor plan financing and required us to cash collateralize a portion of our surety bond and insurance program needs and our letters of credit.

If the availability under our floor plan facilities, anticipated proceeds from sales of manufactured home loans and contracts in connection with the warehouse facility and asset-backed securitization transactions or cash flow from operations is insufficient to finance our operations and alternative capital is not available or surety bonds become unavailable to us, we may be unable to expand or maintain our operations, and our business, results of operations and financial position could suffer.

ENTRY INTO CONSUMER FINANCE BUSINESS - WE FACE RISKS AS A NEW ENTRANT TO THE CONSUMER FINANCE BUSINESS.

Although CIT has operated a consumer finance business in the manufactured home sector for over 50 years, and we have obtained the services of substantially all of CIT's former loan origination personnel in this business, we have limited experience operating a consumer finance business and are largely depending on these former CIT personnel. Our previous loan origination business, which we operated through our subsidiary, HomePride Finance Corp., experienced operational control inadequacies, which resulted in the origination of some loans that did not qualify for sale to intended third party institutions. Our ability to increase our loan portfolio in connection with our new consumer finance business depends in part upon our ability to effectively market our consumer finance services to buyers of our manufactured homes and in the same general economic conditions affecting the consumer finance and manufactured housing industries. We may incur losses as we develop our loan portfolio and integrate our consumer finance business into our existing operations. Moreover, due to our limited operating history and non-participation in the securitization market to date, the manufactured home loans and contracts that we seek to securitize may receive lower ratings and may be subject to stricter underwriting standards than those of our competitors that have an established consumer finance record. As a result, we may be required to bear a larger portion of the

risk of loss on the financing agreements and may pay higher interest rates than our competitors. If we are unable to operate our consumer finance business profitably, we may be unable to recover accumulated operating losses, which could have a material adverse effect on our results and financial position.

FUNDING FOR OUR NEW CONSUMER FINANCE BUSINESS - WE FACE NUMEROUS RISKS ASSOCIATED WITH THE SECURITIZATION PROGRAMS THROUGH WHICH WE INTEND PRIMARILY TO FUND OUR NEW FINANCE OPERATIONS.

In connection with our new business as an originator of consumer financing for factory-built homes, we require continual access to significant, long- and short-term sources of cash to fund our originations of these manufactured home loans and contracts, interest payments, over-collateralization requirements for loan securitizations and other expenses.

We are funding our consumer finance business with a portion of the proceeds from the April 2002 issuance of $150 million of Senior Notes due 2007, cash from operations, proceeds from sales of manufactured home loans and contracts in connection with the warehouse facility and, ultimately, from asset-backed securitization transactions in the capital markets. Adverse changes in the securitization market, interest rates, the market for factory-built homes or general economic conditions could impair our ability to originate, borrow against, purchase and sell manufactured home loans and contracts on a favorable or timely basis. This could prevent the accumulation of a sufficient number of manufactured home loans and contracts on terms required to securitize the manufactured home loans and contracts in asset-backed securitization transactions, in which case we could be forced to sell at a significant discount or hold manufactured home loans and contracts. Our inability to sell the manufactured home loans and contracts would increase our exposure to the risk of default and delinquency by the borrowers thereunder. The occurrence of any of the foregoing

could require us to make cash payments in excess of the funds generated by our loan originations and under loans otherwise acquired by our consumer finance business, which could have a material adverse effect on our results and financial position. If we were unable to make such payments, our business and operations could be severely disrupted.

If our cash requirements increase beyond those generated by our business and we are unable to increase proceeds available from sales of manufactured home loans and contracts in connection with the warehouse facility or access the securitization markets, we may be unable to maintain or increase the volume of our consumer finance business. Our warehouse facility has a one-year term. Although we expect to be able to obtain a replacement facility or renew the facility when it expires, such facility may not be available on favorable terms, if at all. To the extent that we are unable to arrange any facility or other financing, our loan origination activities would be curtailed, which could have a material adverse effect on our results and financial position.

OPERATION OF OUR CONSUMER FINANCE BUSINESS - WE FACE RISKS OF LOSS RELATED TO MANUFACTURED HOME LOANS AND CONTRACTS, INCLUDING RISKS ASSOCIATED WITH DEFAULTS, DELINQUENCIES AND PREPAYMENTS, MANY OF WHICH WILL BE OUTSIDE OUR CONTROL.

We expect to face numerous additional risks in connection with our finance operations, many of which will be outside our control. Many purchasers of manufactured homes may be deemed to be relatively high credit risks due to

various factors, including the lack of or impaired credit histories and limited financial resources. Accordingly, the loans we originate may bear relatively high interest rates and may involve higher default and delinquency rates and servicing costs. In the event that we foreclose on delinquent loans, our ability to sell the underlying collateral to recover or mitigate our loan losses will be subject to market valuations of the collateral. These values may be affected by factors such as the amount of available inventory of manufactured homes on the market and general economic conditions.

Prepayments of our managed receivables, whether due to refinancing, repayments or foreclosures, in excess of management's estimates could adversely affect our future cash flow as a result of the resulting loss of any servicing fee revenue and net interest income on such prepaid receivables. Prepayments can result from a variety of factors, many of which are beyond our control, including changes in interest rates and general economic conditions.

The foregoing risks become more acute in any economic slowdown or recession. Periods of economic slowdown or recession may be accompanied by decreased demand for consumer credit and declining asset values. In the home equity mortgage and factory-built housing businesses, any material decline in real estate values reduces the ability of borrowers to use home equity to support borrowing and increases the loan-to-value ratios of loans previously made, thereby weakening collateral coverage and increasing the possibility of a loss in the event of a default. Delinquencies, foreclosures and losses generally increase during economic slowdowns or recessions. Loss of employment, increases in cost-of-living or other adverse economic conditions would likely impair the ability of our consumer borrowers to meet their payment obligations, which could impair our ability to continue to fund our finance operations.

COMPETITION - THE MANUFACTURED HOUSING INDUSTRY IS VERY COMPETITIVE. IF WE ARE UNABLE TO EFFECTIVELY COMPETE, OUR GROWTH COULD BE LIMITED AND OUR SALES COULD DECLINE.

The manufactured housing industry is highly competitive at both the manufacturing and retail levels, with competition based upon several factors, including price, product features, reputation for service and quality, merchandising, terms of retailer promotional programs and the terms of retail customer financing. Numerous companies produce manufactured homes in our markets. A number of our manufacturing competitors also have their own 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 easy for new retailers to enter into 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 wholesale shipments could be reduced. As a result, our growth could be limited and our sales could decline.

ZONING - IF THE MANUFACTURED HOUSING INDUSTRY IS NOT ABLE TO SECURE FAVORABLE LOCAL ZONING ORDINANCES, OUR SALES COULD DECLINE AND OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION COULD BE MATERIALLY ADVERSELY AFFECTED.

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 business, results of operations and financial condition could be materially adversely affected.

DEPENDENCE UPON WALTER R. YOUNG AND OTHER KEY PERSONNEL - THE LOSS OF ANY OF OUR EXECUTIVE OFFICERS COULD REDUCE OUR ABILITY TO ACHIEVE OUR BUSINESS PLAN AND COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND OPERATING RESULTS.

We depend on the continued services and performance of our executive officers, including our Chairman, President and Chief Executive Officer, Walter R. Young. If we lose the service of Mr. Young or any of our executive officers, it could limit our ability to achieve our business plan and could have a material adverse effect on our business and operating results.

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.

Since mid-1999, retail sales and wholesale 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 traditional chattel lending portion of the industry, higher interest rates on chattel loans and a reduced number of wholesale lenders in the industry. As a result, our operating results have been adversely affected 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.

RESTRICTIVE COVENANTS - THE TERMS OF OUR DEBT PLACE RESTRICTIONS ON US AND OUR SUBSIDIARIES, REDUCING OPERATIONAL FLEXIBILITY.

The documents governing the terms of substantially all of our indebtedness 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;
- 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.

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

The $150 million of Senior Notes due 2007 contain covenants, which among other things limit the Company's ability to incur additional indebtedness, issue additional redeemable preferred stock, pay dividends on or repurchase common stock, make certain investments and incur liens on assets. The debt incurrence covenant in the Notes currently limits additional debt to 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; warehouse financing meeting certain parameters up to $200 million; other debt up to $30 million; and ordinary course indebtedness 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 guaranties of additional debt otherwise permitted to be incurred.

The $150 million warehouse facility we arranged in April 2002 contains covenants requiring the Company to maintain minimum interest coverage ratios and tangible net worth, as defined therein; maintain certain minimum unsecured debt ratings from two of the national ratings agencies; and perform certain other duties thereunder. Subsequent to quarter end, the consolidated special purpose third party entity entered into waiver agreements to cure noncompliance with the minimum interest coverage ratio covenant for the quarter ended June 29, 2002 and to cure noncompliance with the minimum tangible net worth covenant as of June 29, 2002 and provide for a lower minimum tangible net worth requirement through August 30, 2002.

We also have a $15 million floor plan financing facility that contains a covenant requiring us to maintain minimum earnings before interest, taxes, depreciation and amortization (EBITDA), as defined. If our operating results do not improve, we may not be in compliance with this covenant, which could result in the lender terminating the credit line and causing such debt to become immediately due and payable. As of June 29, 2002, the Company had approximately $2 million outstanding under this facility.

In August 2002, Moody's Investors Service and Standard & Poor's announced that they have placed under review, for possible downgrade, our senior implied credit ratings and the ratings on our Senior Notes due 2007 and Senior Notes due 2009. Because the $150 million warehouse facility we arranged in April 2002 requires that we maintain certain minimum unsecured debt ratings, a negative ratings action by Moody's or Standard & Poor's could cause a default under that facility. A negative ratings action also could affect our ability to obtain or maintain various forms of business credit, including but not limited to letters of credit, surety bonds, trade payables and floor plan financing, or could result in us having to place additional collateral related thereto.

During the third quarter of 2002, we are seeking and will need to obtain amendments to the performance covenants of the $150 million warehouse facility in order to ensure our continuing compliance therewith. Also, if our operating results do not improve we may again become noncompliant with one or several of the covenants, which, if not cured or amended, would result in default under the facility. In an event of default, the agent bank could discontinue making further advances under the facility and enact alternate "waterfall" provisions thereunder that would reduce or eliminate current payments to the consolidated third party special purpose entity from the underlying consumer loans. If the agent were to discontinue further advances, we

may not have sufficient capital resources to fund our consumer finance operations.

POTENTIAL DILUTION - OUTSTANDING PREFERRED STOCK THAT IS CONVERTIBLE INTO COMMON STOCK AND REDEEMABLE FOR COMMON STOCK (AND AT THE COMPANY'S OPTION FOR CASH), AND A DEFERRED PURCHASE PRICE OBLIGATION THAT IS PAYABLE, AT THE COMPANY'S OPTION, IN CASH OR COMMON STOCK, COULD RESULT IN POTENTIAL DILUTION AND IMPAIR THE PRICE OF OUR COMMON STOCK.

We currently have outstanding $20 million of Series B-1 cumulative convertible preferred stock which is convertible into common stock at a rate of $13.85 per share. The preferred shareholder has the right, through March 29, 2004, to redeem this preferred stock for common stock. We have the mandatory obligation to redeem any remaining outstanding Series B-1 preferred stock on March 29, 2004, for cash or common stock, at our option. The preferred shareholder has the right until December 31, 2004 to purchase an additional $12 million of Series B preferred stock. From July 3, 2003 until its maturity on July 3, 2008 the holder will have the right to redeem the additional $12 million of Series B preferred stock in common stock at the then market price or in cash at our option. The conversion rate for any future issuance of this preferred stock would be 120% of the market value of the common stock at the time of purchase

(subject to certain limitations) but could not be less than $7.50 per share.

We currently have outstanding $25 million of Series C cumulative convertible preferred stock with a seven year term, which is currently convertible into common stock at a rate of $9.63 per share. On June 29, 2003, the conversion price will be adjusted to 115% of the common stock's then market value (subject to certain limitations), provided that such conversion price shall not be greater than $10.83 per share or less than $5.66 per share. Commencing March 29, 2004, the preferred shareholder has the right to redeem this preferred stock for common stock, and, at our option, partially for cash.

We also 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.

We currently have outstanding a warrant which was initially exercisable based on approximately 1.1 million shares of common stock at a strike price of $12.04 per share. In accordance with the terms of the warrant, on August 6, 2002 the number of shares under warrant and the strike price per share were reset at 2.2 million shares and $10.02 per share, respectively. Beginning on March 29, 2003, the warrant strike price will increase annually 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 June 29, 2002, we had outstanding $22 million of a deferred purchase price obligation which is payable in quarterly payments of $2 million through January 3, 2005. Quarterly payments 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 at the time of issuance.

As a result, assuming we elected to pay any quarterly installment in shares of common stock, the recipients would receive a greater number of shares of common stock in payment of those installments if our common stock price decreases.

To the extent that the preferred shareholder elects to convert the preferred stock into common stock or we elect to make preferred dividend payments or the deferred purchase price obligation payments in common stock, our then existing common shareholders would experience dilution in their percentage ownership interests. If the $25 million of outstanding Series C preferred stock were converted at its conversion price of $9.63 per share, the $20 million of Series B-1 outstanding preferred stock were redeemed at its current redemption floor of $5.66 per share, the $12 million of additional Series B preferred stock were assumed to be issued and converted at 120% of the June 29, 2002 market price, at a minimum of $7.50 per share, and the $22 million deferred purchase price obligation were assumed to be paid in common stock using the June 29, 2002 market price, dilution of approximately 19.3% would occur based on the number of shares of common stock outstanding at June 29, 2002. If all of these securities were assumed to be converted at the June 29, 2002 market price rather than at the current respective conversion or redemption prices, additional dilution of approximately 3.1% would occur.

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 or in payment of the deferred purchase price obligation 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 or the recipients of the deferred purchase price payments, 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 all 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, the terms of which may result in additional potential dilution.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company's floor plan borrowings are subject to interest primarily based on the U.S. prime interest rate. A 100 basis point increase in the prime rate would result in additional annual interest cost of $0.1 million, assuming average floor plan borrowings of $11 million, the amount of outstanding borrowings at June 29, 2002.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On April 30, 2002 the registrant held its 2002 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	Vote
Robert W. Anestis	43,829,727	2
Eric S. Belsky	43,802,539	3
Selwyn Isakow	43,819,643	2
Brian D. Jellison	43,822,763	2
Ellen R. Levine	43,812,187	3
George R. Mrkonic	43,793,902	3
Walter R. Young	37,878,521	6,2

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

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

Exhibit No	Description
10.1	Receivables Purchase Agreement dated as of April 18, 2002 among GSS HomePride Corp., HomePride Finance Corp., The CIT Group/Sales Financing, Inc., Greenwich Funding Corp., the financial institutions named therein and Credit Suisse First Boston, New York Branch.
10.2	Amendment Agreement No. 1, dated as of May 23, 2002 to the Receivables Purchase Agreement, dated as of April 18, 2002, among HomePride Finance Corp., GSS HomePride Corp., The CIT Group/Sales Financing, Inc., Greenwich Funding Corp., the financial institutions named therein as Banks and Credit Suisse First Boston, New York Branch.
10.3	Amendment and Waiver Agreement No. 2, dated as of June 17, 2002, to the (i) Fee Letter Agreement, dated as of April 18, 2002, among GSS HomePride Corp., a Delaware corporation, HomePride Finance Corp., a Michigan corporation and Credit

	Suisse First Boston, New York Branch, and (ii) Receivables Purchase Agreement, dated as of April 18, 2002, among GSS HomePride Corp., HomePride Finance Corp., The CIT/Group Sales Financing, Inc., a Delaware corporation, Greenwich Funding Corp., the financial institutions set forth on the signature page thereto and Credit Suisse First Boston, New York Branch.
10.4	Amendment Agreement No. 3, dated as of June 21, 2002, to the Receivables Purchase Agreement, dated as of April 18, 2002, among HomePride Finance Corp., GSS HomePride Corp., The CIT Group/Sales Financing, Inc., Greenwich Funding Corp., the financial institutions named therein as Banks and Credit Suisse First Boston, New York Branch.
11	Statement Regarding Computation of Earnings (Loss) Per Share.
(b)	On April 5, 2002 (three filings), April 17, 2002 (two filings), April 25, 2002, May 16, 2002, May 23, 2002, June 18 2002, June 27, 2002, July 17, 2002, August 8, 2002 and August 14, 2002, Champion filed current reports on Form 8-K. On August 19, 2002 Champion filed a Form 8-K/A to amend its Form 8-K dated August 8, 2002 and a Form 8-K/A to amend its Form 8-K dated July 17, 2002.

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/ ANTHONY S. CLEBERG

Anthony S. Cleberg
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 19, 2002

Exhibit Index

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