

Skyline Champion Corp
Form 10-Q
February 06, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 29, 2018

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: 001-04714

Skyline Champion Corporation

(Exact name of registrant as specified in its charter)

Indiana	35-1038277
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

P.O. Box 743, 2520 By-Pass Road

Elkhart, Indiana	46515
(Address of principal executive offices)	(Zip Code)

(574) 294-6521

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(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of February 1, 2019, 56,713,294 shares of Skyline Champion Corporation's Common Stock, \$0.0277 par value, were outstanding.

SKYLINE CHAMPION CORPORATION

FORM 10-Q

December 29, 2018

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EXPLANATORY NOTE

As previously reported by Skyline Champion Corporation (formerly known as Skyline Corporation), an Indiana corporation (the “Company”), in its Current Report on Form 8-K filed on June 6, 2018, on June 1, 2018, the Company and Champion Enterprises Holdings, LLC (“Champion Holdings”) completed the transactions contemplated by the Share Contribution & Exchange Agreement (the “Exchange Agreement”), dated as of January 5, 2018, by and between the Company and Champion Holdings. Under the Exchange Agreement, (i) Champion Holdings contributed to the Company all of the issued and outstanding equity interests of each of Champion Holdings’ wholly-owned operating subsidiaries, Champion Home Builders, Inc., a Delaware corporation (“CHB”), and CHB International B.V., a Dutch private limited liability company (“CIBV”) (the shares of stock of CHB and CIBV contributed to the Company, the “Contributed Shares”), and (ii) in exchange for the Contributed Shares, the Company issued to the members of Champion Holdings, in the aggregate, 47,752,008 shares of the Company common stock, \$0.0277 par value per share (“Skyline Common Stock”) (such issuance, the “Shares Issuance”). Immediately following the Shares Issuance, the members of Champion Holdings collectively held 84.5%, and the Company’s pre-closing shareholders collectively held 15.5%, of the issued and outstanding Skyline Common Stock on a fully-diluted basis. The contribution of the Contributed Shares by Champion Holdings to Skyline, and the Shares Issuance by the Company to the members of Champion Holdings are collectively referred to herein as the “Exchange.”

The Exchange was treated as a purchase of the Company by Champion Holdings for accounting and financial reporting purposes. As a result, the financial results for the nine months ended December 29, 2018 comprise the results of only Champion Holdings through June 1, 2018 and the Company, after giving effect to the Exchange, from June 1, 2018 through December 29, 2018. All periods prior to June 1, 2018 are comprised solely of the results of Champion Holdings.

All Company earnings per share and common share outstanding amounts in this Quarterly Report on Form 10-Q have been calculated as if the Shares Issuance took place on April 2, 2017, at the exchange ratio, as defined in the Exchange Agreement.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
Skyline Champion Corporation

Condensed Consolidated Balance Sheets

(Dollars and shares in thousands, except per share amounts)

	December 29, 2018 (unaudited)	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 128,985	\$ 113,731
Trade accounts receivable, net	46,479	41,984
Inventories	111,351	98,022
Other current assets	11,909	9,367
Total current assets	298,724	263,104
Long-term assets:		
Property, plant and equipment, net	111,360	67,960
Restricted cash	—	22,885
Goodwill	172,057	3,179
Amortizable intangible assets, net	48,914	1,542
Deferred tax assets	34,527	30,290
Other noncurrent assets	12,682	6,438
Total assets	\$ 678,264	\$ 395,398
LIABILITIES AND EQUITY		
Current liabilities:		
Floor plan payable	\$ 38,958	\$ 29,825
Short-term portion of debt	—	404
Accounts payable	34,742	36,773
Other current liabilities	122,829	100,112
Total current liabilities	196,529	167,114
Long-term liabilities:		
Long-term debt	59,330	58,927
Deferred tax liabilities	3,459	3,294
Other long-term liabilities	20,401	12,766
Total long-term liabilities	83,190	74,987
Contingent Liabilities (Note 17)		
Equity:		
Common stock, \$0.0277 par value, 115,000 shares authorized, 56,713 shares issued as of December 29, 2018 (including 464 shares subject to restriction)	1,571	—
Additional paid-in capital	475,838	—
Members' contributed capital	—	140,076

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(Accumulated deficit) retained earnings	(67,365)	22,514
Accumulated other comprehensive loss	(11,499)	(9,293)
Total equity	398,545	153,297
Total liabilities and equity	\$ 678,264	\$ 395,398

See accompanying Notes to Consolidated Financial Statements.

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Skyline Champion Corporation

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Dollars in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	December 29, 2018	December 30, 2017	December 29, 2018	December 30, 2017
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net sales	\$354,671	\$ 294,378	\$1,032,368	\$ 798,443
Cost of sales	289,935	238,118	853,472	664,824
Gross profit	64,736	56,260	178,896	133,619
Selling, general, and administrative expenses	48,848	32,877	222,005	87,439
Operating income (loss)	15,888	23,383	(43,109)	46,180
Interest expense, net	813	999	2,712	3,164
Other expense	125	1,940	7,845	2,863
Income (loss) before income taxes	14,950	20,444	(53,666)	40,153
Income tax expense	4,437	15,051	13,699	22,089
Net income (loss)	\$10,513	\$ 5,393	\$(67,365)	\$ 18,064
Comprehensive income (loss):				
Net income (loss)	\$10,513	\$ 5,393	\$(67,365)	\$ 18,064
Foreign currency translation (loss) gain	(2,099)	(250)	(2,206)	1,949
Comprehensive income (loss)	\$8,414	\$ 5,143	\$(69,571)	\$ 20,013
Net income (loss) per share:				
Basic	\$0.19	\$ 0.11	\$(1.28)	\$ 0.38
Diluted	\$0.19	\$ 0.11	\$(1.28)	\$ 0.38

See accompanying Notes to Consolidated Financial Statements.

Skyline Champion Corporation

Condensed Consolidated Statements of Cash Flows

(Dollars in thousands)

	Nine Months Ended	
	December 2018	
	2018	2017
	(unaudited)	
Cash flows from operating activities		
Net (loss) income	\$(67,365)	\$ 18,064
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities		
Depreciation	8,219	5,761
Amortization of intangible assets	3,316	365
Equity-based compensation	97,589	450
Deferred income taxes	3,223	11,335
Amortization of deferred financing fees	409	45
Loss (gain) on disposal of property, plant and equipment	1	(1)
Foreign currency transaction loss (gain)	188	(1,140)
(Increase) decrease in assets net of business acquired		
Accounts receivable	8,414	(29,867)
Inventories	4,991	(10,113)
Prepaid expenses	(613)	(2,102)
Other assets	327	1,951
Increase (decrease) in liabilities net of business acquired		
Accounts payable	(11,756)	(2,871)
Accrued expenses	4,618	2,754
Other liabilities	357	4,698
Net cash provided by (used in) operating activities	51,918	(671)
Cash flows from investing activities		
Additions to property, plant, and equipment	(7,627)	(7,867)
Cash assumed in business acquisition	9,722	—
Proceeds from disposal of property, plant and equipment	17	424
Decrease (increase) in note receivable	284	(167)
Net cash provided by (used in) investing activities	2,396	(7,610)
Cash flows from financing activities		
Borrowings on revolving credit facility	46,900	—
Payments on term loans and capital leases	(46,900)	(317)
Changes in floor plan financing, net	9,133	6,190
Payments for deferred financing fees	(2,169)	(93)
Members' capital distributions	(65,277)	—
Stock option exercises	1,615	—
Tax payments for equity-based compensation	(4,117)	—
Net cash (used in) provided by financing activities	(60,815)	5,780

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Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1,130)	1,557
Net decrease in cash, cash equivalents and restricted cash during the period	(7,631)	(944)
Cash, cash equivalents and restricted cash at beginning of period	136,616	102,692
Cash, cash equivalents and restricted cash at end of period	\$128,985	\$ 101,748

See accompanying Notes to Consolidated Financial Statements.

Skyline Champion Corporation

Condensed Consolidated Statement of Stockholders' Equity

(Unaudited, dollars and shares in thousands)

				Retained		Accumulated	
	Members'	Common	Stock	Additional	Earnings	Other	
	Contributed	Shares	Amount	Paid in	(Accumulated	Comprehensive	Total
	Capital			Capital	Deficit)	Loss	
Balance at April 1, 2018	\$ 140,076	—	\$—	\$—	\$ 22,514	\$ (9,293) \$153,297
Members' capital distributions	(42,763)	—	—	—	(22,514)	—	(65,277)
Exchange of membership interest for shares of Skyline Champion Corporation	(97,313)	56,143	1,555	380,923	—	—	285,165
Equity-based compensation	—	—	—	97,589	—	—	97,589
Common stock issued under equity-based compensation plans, net of shares withheld for employee taxes	—	570	16	(2,674)	—	—	(2,658)
Foreign currency translation adjustments	—	—	—	—	—	(2,206)	(2,206)
Net loss	—	—	—	—	(67,365)	—	(67,365)
Balance at December 29, 2018	\$ —	56,713	\$ 1,571	\$ 475,838	\$ (67,365)	\$ (11,499)	\$ 398,545

Components of accumulated other comprehensive loss consisted solely of foreign currency translation adjustments.

See accompanying Notes to Consolidated Financial Statements.

Skyline Champion Corporation

Notes to Condensed Consolidated Financial Statements

1. Basis of Presentation and Business

The accompanying unaudited consolidated financial statements of Skyline Champion Corporation (the “Company”), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for Quarterly Reports on Form 10-Q and Article 10 of SEC Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations.

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries after elimination of intercompany balances and transactions. In the opinion of management, these statements include all normal recurring adjustments necessary to fairly state the Company’s consolidated results of operations, cash flows and financial position. The Company has evaluated subsequent events after the balance sheet date through the date of the filing of this report with the SEC. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes to the audited consolidated financial statements included as an exhibit to the Company’s Current Report on Form 8-K/A, which was filed with the SEC on June 14, 2018.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes thereto. Actual results could differ from those estimates. The condensed consolidated statements of comprehensive income (loss) and condensed consolidated statements of cash flows for the interim periods are not necessarily indicative of the results of operations or cash flows for the full year.

The Company’s fiscal year is a 52- or 53-week period that ends on the Saturday nearest to March 31. The Company’s current fiscal year, “fiscal 2019”, will end on March 30, 2019. References to “fiscal 2018” refer to the Company’s fiscal year ended March 31, 2018. The three and nine months ended December 29, 2018 and December 30, 2017 each included 13 and 39 weeks, respectively.

The Company is a leading producer of factory-built housing in the United States (“U.S.”) and Canada and serves as a complete solutions provider across complementary and vertically integrated businesses including manufactured construction, company-owned retail locations, and transportation logistics services. The Company is the second largest factory-built solutions provider in North America based on revenue and markets its homes under several nationally recognized brand names including Skyline Homes, Champion Homes, Redman Homes, Dutch Housing, Excel Homes, Silvercrest, Titan Homes, Moduline, and SRI Homes. As of December 29, 2018, the Company operates 31 manufacturing facilities throughout the U.S. and five manufacturing facilities in western Canada that primarily construct factory-built, timber-framed manufactured and modular houses that are sold primarily to independent retailers and builders/developers, including manufactured home community operators. The Company’s retail operations consist of 21 sales centers that sell manufactured homes to consumers primarily in the southern U.S. The Company’s transportation business primarily engages independent owners/drivers to transport manufactured homes and recreational vehicles throughout the U.S. and Canada.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. A lessee should recognize in the consolidated balance sheet a liability to make lease payments (the lease liability) and an asset representing its right to use the underlying asset for the lease term. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous requirements. This ASU is effective for fiscal years beginning after December 31, 2018, or the Company’s fiscal year commencing March 31, 2019. Modified retrospective application and early adoption is permitted.

The Company is currently evaluating the impact this standard will have on its consolidated financial position, results of operations and cash flows. The Company expects the impact to the Company's consolidated balance sheet will be significant. The Company (i) has formed a cross-functional implementation team; (ii) is engaging a third party to assist with the implementation, and (iii) is implementing a software solution to manage and account for leases under the new standard. The Company plans to adopt the standard by applying the modified retrospective method on the March 31, 2019 adoption date as a cumulative-effect adjustment to the balance sheet, without restatement of comparative periods' financial information, based on transition guidance recently issued by the FASB. In addition, the Company expects to elect the package of practical expedients, exclusive of the lease term hindsight, as defined in the standard.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The standard simplifies the accounting for goodwill impairments and allows a goodwill impairment charge to be based on the amount of a reporting unit's carrying value in excess of its fair value. This eliminates the requirement to calculate the implied fair value of goodwill or what is known as "Step 2" under the current guidance. This guidance is effective for annual and interim periods of public entities beginning after December 15, 2019, with early adoption permitted. The Company is currently assessing the potential impact this ASU will have on its consolidated financial statements.

There were no other accounting standards recently issued that are expected to have a material impact on the Company's financial position or results of operations.

Skyline Champion Corporation

Notes to Condensed Consolidated Financial Statements – Continued

2. Business Combination

On January 5, 2018, Champion Holdings and the Company entered into the Exchange Agreement pursuant to which the two companies agreed to combine their operations. The Exchange was completed on June 1, 2018 and was accounted for as a reverse acquisition under the acquisition method of accounting as provided by the FASB Accounting Standards Codification 805, Business Combinations (“ASC 805”). Champion Holdings was determined to be the acquirer for accounting and financial reporting purposes. The assets acquired and liabilities assumed by Champion Holdings as a result of the Exchange were recorded at their respective fair values and added to the carrying value of Champion Holdings’ existing assets and liabilities. As Champion Holdings is the accounting acquirer, reported financial results for Skyline Champion Corporation for the nine months ended December 29, 2018 comprise the results of only Champion Holdings through June 1, 2018 and the Company, after giving effect to the Exchange, from June 1, 2018 through December 29, 2018. All periods prior to June 1, 2018 are comprised solely of the results of Champion Holdings.

The purchase price of the acquisition was determined with reference to the value of equity (common stock) of the Company based on the closing price on June 1, 2018 of \$33.39 per share. The purchase price has been allocated to the assets acquired and liabilities assumed using their estimated fair values at June 1, 2018, the closing of the Exchange. The purchase price and its allocation are preliminary and have been used to prepare the accompanying condensed consolidated financial statements. The final purchase price and its allocation will be determined when the Company has completed the necessary valuations and calculations. The final allocation could differ materially from the preliminary allocation used in the accompanying condensed consolidated financial statements. The final allocation may include changes in allocations to intangible assets and other changes to the fair value assigned to the assets acquired and liabilities assumed.

The preliminary estimated purchase price was allocated as follows:

(Dollars in thousands)	Previously Reported	Changes to Allocation	Preliminary Allocation at December 29, 2018
Cash	\$9,722	\$ —	\$ 9,722
Trade accounts receivable	13,876	—	13,876
Inventory	19,028	—	19,028
Property, plant and equipment	44,642	—	44,642
Deferred tax assets, net	9,733	(1,779)	7,954
Other assets	6,349	—	6,349
Accounts payable and accrued liabilities	(35,763)	(214)	(35,977)
Intangibles	43,300	7,393	50,693
Goodwill	174,278	(5,400)	168,878
Total preliminary estimated purchase price allocation	\$ 285,165	\$ —	\$ 285,165

Preliminary estimated goodwill is primarily attributable to expected synergies from the combination of the companies, including, but not limited to, expected cost synergies through procurement activities and operational improvements

through sharing of best practices. Goodwill, which is not deductible for income tax purposes, was allocated to the U.S. Factory-built Housing reporting unit.

Cash, trade receivables, other assets, accounts payable, accrued and other liabilities were generally stated at historical carrying values given the short-term nature of these assets and liabilities. Intangible assets consist primarily of provisional amounts recognized for the fair value of customer relationships and trade names and were based on an independent appraisal. Customer-based assets include the Company's established relationships with its customers and the ability of those customers to generate future economic profits for the Company. The Company estimates that these intangible assets have a weighted average useful life of ten years. Fair value estimates of property, plant and equipment were based on independent appraisals, giving consideration to the highest and best use of the assets. Key assumptions used in the appraisals were based on a combination of market and cost approaches, as appropriate. As a result of the June 2018 acquisition of Skyline Corporation, level 3 fair value estimates of \$44.6 million related to property, plant and equipment and \$50.7 million related to intangible assets were recorded in the accompanying condensed consolidated balance sheets as of December 29, 2018. For further information on acquired assets measured at fair value, see Note 6, Goodwill and Intangible Assets.

The Company allocated a portion of the preliminary estimated purchase price to certain realizable deferred tax assets totaling \$28.4 million. Deferred tax assets are primarily federal and state net operating loss carryforwards and credits offset by a valuation allowance for certain state net operating loss carryforwards that are not expected to be realized. The deferred tax assets are offset by deferred tax liabilities of \$20.4 million resulting from the purchase price allocation step-up in fair value that exceed the historical tax basis.

Skyline Champion Corporation

Notes to Condensed Consolidated Financial Statements – Continued

Included in the Company's results of operations for the three and nine months ended December 29, 2018, are results from the business acquired as follows:

	Three Months Ended	Nine Months Ended
	December 29, 2018	December 29, 2018
(Dollars in thousands)		
Net sales	\$ 63,193	\$ 153,337

A summary of the results of operations for the Company, on an as reported and on a pro forma basis, are as follows:

	Three Months Ended		Nine Months Ended		Nine Months Ended	
	December 30, 2017		December 29, 2018		December 30, 2017	
	Reported	Pro forma	Reported	Pro forma	Reported	Pro forma
(Dollars in thousands)						
Net sales	\$294,378	\$350,913	\$1,032,368	\$1,078,172	\$798,443	\$972,903
Net income (loss)	5,393	8,421	(67,365)	(52,256)	18,064	22,281

The pro forma results are based on adding the historical results of operations of Champion Holdings and the Company and adjusting primarily for the amortization of intangibles created in the Exchange; the increase in depreciation as a result of the step-up in fair value of property, plant and equipment; removing transaction costs directly associated with the Exchange; removing equity-based compensation expense directly resulting from the Exchange; reflecting the financing arrangements entered into in connection with the Exchange, and adjusting those items for income taxes. The pro forma disclosures do not give effect to the potential impact of current financial conditions, any anticipated synergies, operating efficiencies or cost savings that may result from the Exchange or any integration costs. The pro forma data is intended for informational purposes and is not indicative of the future results of operations. The Exchange was completed during the first quarter of fiscal 2019, and therefore, there was no difference between the results of operations on an as reported and pro forma basis for the three months ended December 29, 2018.

The Exchange Agreement provided that Champion Holdings was permitted to pay a capital distribution prior to completion of the Exchange to the extent it had cash in excess of debt and other debt-like items and unpaid Exchange fees and expenses. Prior to the completion of the Exchange, Champion Holdings made a capital distribution to its

members equal to an aggregate of \$65.3 million (of which \$22.5 million was reflected as a reduction to retained earnings and \$42.8 million was reflected as a reduction to members' contributed capital).

3. Cash, Cash Equivalents and Restricted Cash

On April 1, 2018, the Company adopted ASU 2016-18, Restricted Cash. The standard requires that changes in restricted cash be reflected with changes in cash and cash equivalents on the statement of cash flows and that a reconciliation between cash and cash equivalents presented on the balance sheet and cash, cash equivalents and restricted cash presented on the statement of cash flows be provided. The provisions of the standard were applied retrospectively, and the effects of adoption were not significant.

A reconciliation of cash, cash equivalents and restricted cash was as follows:

	December 29,	March 31,
(Dollars in thousands)	2018 (unaudited)	2018
Balance sheet - cash and cash equivalents	\$ 128,985	\$ 113,731
Balance sheet - restricted cash	—	22,885
Statement of cash flows - cash, cash equivalents and restricted cash	\$ 128,985	\$ 136,616

	December 30,	April 1,
(Dollars in thousands)	2017 (unaudited)	2017
Balance sheet - cash and cash equivalents	\$ 78,906	\$ 81,012
Balance sheet - restricted cash	22,842	21,680
Statement of cash flows - cash, cash equivalents and restricted cash	\$ 101,748	\$ 102,692

Skyline Champion Corporation

Notes to Condensed Consolidated Financial Statements – Continued

4. Inventories

The components of net inventory, including inventory for the Company's manufacturing and retail operations, were as follows:

	December 29,	March 31,
(Dollars in thousands)	2018 (unaudited)	2018
Raw materials	\$ 45,133	\$37,852
Work in process	13,299	10,004
Finished goods and other	52,919	50,166
Total inventories	\$ 111,351	\$98,022

At both December 29, 2018 and March 31, 2018, reserves for obsolete inventory were \$3.5 million.

5. Property, Plant, and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated primarily on the straight-line method, generally over the following estimated useful lives: land improvements – 3 to 10 years; buildings and improvements – 8 to 25 years; and vehicles and machinery and equipment – 3 to 8 years. Depreciation expense, including amortization of assets under capital lease, for the three and nine months ended December 29, 2018 was \$2.9 million and \$8.2 million, respectively, and for the three and nine months ended December 30, 2017 was \$1.9 million and \$5.8 million, respectively.

The components of property, plant, and equipment were as follows:

	December 29,	March 31,
(Dollars in thousands)	2018 (unaudited)	2018
Land and improvements	\$ 34,797	\$22,071
Buildings and improvements	85,863	58,179
Machinery and equipment	40,459	31,924
Construction in progress	3,122	919
Property, plant and equipment, at cost	164,241	113,093

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Less accumulated depreciation	52,881	45,133
Property, plant, and equipment, net	\$ 111,360	\$67,960

6. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. At December 29, 2018 and March 31, 2018, the Company had goodwill of \$172.1 million and \$3.2 million, respectively. The increase during the nine months ended December 29, 2018 was a result of goodwill recognized in the Exchange.

Intangible Assets

The components of amortizable intangible assets were as follows:

(Dollars in thousands)	December 29,			March 31,		
	2018			2018		
	Customer Trade			Customer Trade		
	Relationships	Names	Total	Relationships	Names	Total
	(unaudited)					
Gross carrying amount	\$47,151	\$13,131	\$60,282	\$5,739	\$4,268	\$10,007
Accumulated amortization	(7,768)	(3,600)	(11,368)	\$(5,610)	\$(2,855)	(8,465)
Amortizable intangibles, net	\$39,383	\$9,531	\$48,914	\$129	\$1,413	\$1,542
Weighted average amortization period, in years	9.4	8.9	9.3	4.3	5.5	5.4

Skyline Champion Corporation

Notes to Condensed Consolidated Financial Statements – Continued

During the nine months ended December 29, 2018, the Company recognized finite-lived intangibles for customer relationships of \$41.7 million and trade names of \$9.0 million as a result of the allocation of the preliminary estimated purchase price from the Exchange. The fair value of the customer relationship intangible asset was estimated using the multi-period excess earnings method of the income approach. The final determination of the customer relationship intangible asset will depend on changes to the assumptions used for projected cash flows attributable to the acquired customer relationships, the annual attrition rate of existing customer relationships, the contributory asset charges attributable to the assets that support the customer relationships, such as net working capital, property, plant and equipment, trade name, and workforce, the economic life and the discount rate as determined at the time of the final valuation. The fair value of the trade name intangible asset was estimated using the relief-from-royalty method of the income approach. The final determination of the trade names intangible asset will depend on changes to assumptions used for the expected life of the intangible asset, the royalty rate and the discount rate that reflects the level of risk associated with the future cash flows as determined at the time of the final valuation. Amortization of intangible assets for the three and nine months ended December 29, 2018 was \$1.6 million and \$3.3 million, respectively, and for the three and nine months ended December 30, 2017 was \$0.2 million and \$0.4 million, respectively.

7. Other Current Liabilities

The components of other current liabilities were as follows:

	December 29,	March 31,
(Dollars in thousands)	2018 (unaudited)	2018
Customer deposits and receipts in excess of revenues	\$ 27,540	\$24,557
Accrued volume rebates	22,259	17,037
Accrued warranty obligations	17,366	12,530
Accrued compensation and payroll taxes	25,051	24,100
Accrued insurance	16,934	11,112
Other	13,679	10,776
Total other current liabilities	\$ 122,829	\$ 100,112

8. Accrued Warranty Obligations

Changes in the accrued warranty obligations were as follows:

	Three Months Ended		Nine Months Ended	
	December 29, 2018		December 30, 2017	
(Dollars in thousands)	2018 (unaudited)	2017	2018 (unaudited)	2017
Balance at the beginning of the period	\$22,871	\$ 15,068	\$15,430	\$ 14,534

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Warranty assumed in the Exchange	—	—	6,259	—
Warranty expense	9,167	5,825	25,834	17,441
Cash warranty payments	(8,972)	(5,884)	(24,457)	(16,966)
Balance at end of period	23,066	15,009	23,066	15,009
Less noncurrent portion in other long-term liabilities	5,700	2,600	5,700	2,600
Total current portion	\$17,366	\$ 12,409	\$17,366	\$ 12,409

9. Debt and Floor Plan Payable

Long-term debt consisted of the following:

	December 29,	March 31,
(Dollars in thousands)	2018	2018
	(unaudited)	
Revolving credit facility	\$ 46,900	\$—
Obligations under industrial revenue bonds due 2029	12,430	12,430
Capital lease obligations and other debt	—	4
Term Loans due March 2020	—	46,897
Total debt	59,330	59,331
Less current portion	—	404
Total long-term debt	\$ 59,330	\$58,927

Skyline Champion Corporation

Notes to Condensed Consolidated Financial Statements – Continued

On June 5, 2018, the Company entered into a credit agreement (the “New Credit Agreement”) with a syndicate of banks. The New Credit Agreement provides for a revolving credit facility of up to \$100.0 million, including a letter of credit sub-facility of not less than \$45.0 million. Initial borrowings under the New Credit Agreement were used to repay the Company’s existing \$46.9 million term loans (“Term Loans”) and replace the Company’s existing cash collateralized stand-alone letter of credit facility.

The New Credit Agreement matures on June 5, 2023 and has no scheduled amortization. The interest rate under the New Credit Agreement adjusts based on the first lien net leverage of the Company. From June 5, 2018 through December 31, 2018, the annual interest rate is the London Interbank Offered Rate (“LIBOR”) plus 1.75% or an alternative base rate (“ABR”) described in the New Credit Agreement plus 0.75%, at the election of the Company. Thereafter, the interest rate adjusts based on the first lien net leverage from a high of LIBOR plus 2.25% and ABR plus 1.25% when the first lien net leverage is equal to or greater than 2.00:1.00, to a low of LIBOR plus 1.50% and ABR plus 0.50% when the first lien net leverage is below 0.50:1.00. In addition, the Company is obligated to pay an unused line fee ranging between 0.40% and 0.25% (depending on the first lien net leverage) in respect of unused commitments under the New Credit Agreement. At December 29, 2018 the interest rate on borrowings under the New Credit Agreement was 4.13%.

Prior to entering into the New Credit Agreement, the Company had outstanding Term Loans of \$46.9 million under a prior credit agreement with lenders that primarily included the Company’s equity holders and certain other affiliates. The interest rate on the Term Loans, priced using LIBOR plus an applicable margin, was 6.5% at March 31, 2018.

Also, prior to entering into the New Credit Agreement, the Company provided letters of credit issued by a commercial bank under a separate stand-alone facility collateralized with restricted cash of 101% of the issued letters of credit. At December 29, 2018, letters of credit issued under the New Credit Agreement totaled \$21.0 million. Subsequent to entering into the New Credit Agreement, the Company is no longer required to back letters of credit with restricted cash.

Obligations under industrial revenue bonds are supported by letters of credit and bear interest based on a municipal bond index rate. The weighted-average interest rate at December 29, 2018, including related costs and fees, was 4.1%. At March 31, 2018, the weighted-average interest rate, including related costs and fees, was 3.2%. The industrial revenue bonds require lump-sum payments of principal upon maturity in 2029.

The New Credit Agreement contains covenants that restrict the amount of additional debt, liens and certain payments, including equity buybacks, investments, dispositions, mergers and consolidations, among other restrictions as defined. The Company was in compliance with all covenants of the New Credit Agreement as of December 29, 2018.

Floor Plan Payable

The Company’s retail operations utilize floor plan financing to fund the acquisition of manufactured homes for display or resale. At December 29, 2018 and March 31, 2018, the Company had outstanding borrowings on floor plan financing agreements of \$39.0 million and \$29.8 million, respectively. Total available borrowings under the agreements as of December 29, 2018 and March 31, 2018 were \$47.0 million and \$43.0 million, respectively. Borrowings are secured by the homes and are required to be repaid when the Company sells the home to a customer.

10. Revenue Recognition

In May 2014, the FASB issued an amendment on revenue recognition. The amendment created Topic 606, Revenue from Contracts with Customers, (“ASC 606”) and supersedes the revenue recognition requirements in ASC Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendment supersedes the cost guidance in Subtopic 605-35, Revenue Recognition - Construction-Type and Production-Type Contracts, and created new Subtopic 340-40, Other Assets and Deferred Costs - Contracts with Customers. Under ASC 606 an entity recognizes revenue in a manner that reflects the transfer of promised goods or services to customers in an amount which the entity expects to be entitled in exchange for those goods or services.

On April 1, 2018, the Company adopted ASC 606 using the modified retrospective method as applied to customer contracts that were not completed as of March 31, 2018. As a result, financial information for reporting periods beginning after March 31, 2018, are presented in accordance with ASC 606 while prior reporting periods are not adjusted and continue to be reported in accordance with the Company’s revenue recognition policies prior to the adoption of ASC 606. There was not a material impact to revenues as a result of applying ASC 606 for the three and nine months ended December 29, 2018 and the post-adoption effects to the Company’s business processes, systems or internal controls were not significant.

The Company’s revenue is recognized when performance obligations under the terms of a contract are satisfied which generally occurs with the transfer of control of products. The Company enters into contracts with its customers to provide manufactured homes, modular homes, park models, commercial structures and transportation services. Generally, the Company’s contracts do not provide for a specified quantity of

Skyline Champion Corporation

Notes to Condensed Consolidated Financial Statements – Continued

products and may be terminated by the Company's customers at any time. Historically, terminations of these contracts have been minimal. The Company receives signed sales quotes from its customers, which provide the terms for a specific home, including price. The Company also has agreements with certain customers that provide for certain variable considerations such as volume discounts that are deducted from the contract price and accrued at the time of sale. In certain situations, the Company may receive payment in advance of completion of its contractual obligations. In these situations, the arising contract liability is classified within customer deposits and receipts in excess of revenues. Following the receipt of the customer deposit, the Company typically completes its performance obligation within a twelve-month period.

For sales to independent retailers and builders/developers, revenue is recognized at the point in time when wholesale floor plan financing or retailer credit approval has been received, the home has shipped and title has been transferred, which occurs when the Company has satisfied its contractual obligations and the control of its products has been transferred. The Company does not have an enforceable right to payment prior to shipment. The amount of revenue recognized reflects the consideration that the Company expects to be entitled to in exchange for those products. The Company's customers pay for products received in accordance with payment terms that are customary within the industry. As is customary in the factory-built housing industry, a significant portion of the Company's sales to independent retailers are financed under floor plan financing programs with certain third-party lenders. Floor plan financing arrangements are generally identified prior to shipment of products and payment for sales financed under floor plan programs is generally received 5 to 10 business days from the date of invoice.

For retail sales to consumers from Company-owned retail sales centers, for which substantially all sales are of Company manufactured products, revenue is recognized when the home has been delivered, set up and accepted by the consumer, title has transferred and, depending on the nature of the transaction, either funds have been received from the finance company or directly from the home buyer.

The Company recognizes commercial revenue and related cost of sales for long-term construction contracts ("Commercial") over time as performance obligations are satisfied using the percentage-of-completion method (input method). Management estimates the stage of completion on each construction project based on progress and costs incurred. Unbilled revenue on long-term construction contracts are classified as a contract asset in accounts receivable. Receipts in excess of billings are classified as contract liabilities and included in other current liabilities. At December 29, 2018 and March 31, 2018, uncollected billings related to long-term construction contracts totaled \$1.3 million and \$5.0 million, respectively. At December 29, 2018, there was no unbilled revenue for long-term contracts. At March 31, 2018, unbilled revenue for long-term construction contracts was \$0.3 million.

Revenue for the Company's transportation operations is recognized when a shipment has been delivered to its final destination. Amounts billed to customers related to shipping and handling costs are included in net sales. Shipping and handling costs are accounted for as fulfillment costs and are included in cost of sales. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue producing transaction that are collected by the Company from a customer are excluded from net sales. The Company expenses sales commissions when incurred. Sales commissions are recorded in selling, general, and administrative expenses.

The following tables disaggregate the Company's revenue by sales category for the three and nine months ended December 29, 2018:

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Three Months Ended December 29, 2018

U.S. Canadian

Factory-Built Factory-built Corporate/

(Dollars in thousands)	Housing (unaudited)	Housing	Other	Total
Manufacturing and retail	\$308,013	\$ 27,130	\$ —	\$335,143
Commercial	1,505	—	—	1,505
Transportation	—	—	18,023	18,023
Total	\$309,518	\$ 27,130	\$ 18,023	\$354,671

Nine Months Ended December 29, 2018

U.S. Canadian

Factory-Built Factory-built Corporate/

(Dollars in thousands)	Housing (unaudited)	Housing	Other	Total
Manufacturing and retail	\$870,816	\$ 79,885	\$	