

CHAMPION INDUSTRIES INC  
Form 10-Q  
September 11, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

**FORM 10-Q**

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

For the quarterly period ended July 31, 2007

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 No. 0-21084

**Champion Industries, Inc.**

(Exact name of Registrant as specified in its charter)

West Virginia  
(State or other jurisdiction of  
incorporation or  
organization)

55-0717455  
(I.R.S. Employer  
Identification No.)

2450-90 1<sup>st</sup> Avenue  
P.O. Box 2968  
Huntington, WV 25728  
(Address of principal executive offices)  
(Zip Code)

(304) 528-2700  
(Registrant's telephone number,  
including area code)

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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

Class	Outstanding at July 31, 2007
Common stock, \$1.00 par value per share	9,962,913 shares

**Champion Industries, Inc.**

**INDEX**

	<b>Page No.</b>
<b>Part I. Financial Information</b>	
<b>Item 1. Financial Statements</b>	
Consolidated Balance Sheets (Unaudited)	3
Consolidated Statements of Income (Unaudited)	5
Consolidated Statements of Cash Flows (Unaudited)	6
Notes to Consolidated Financial Statements	7
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3. Quantitative and Qualitative Disclosure About Market Risk	19
Item 4. Controls and Procedures	19
<b>Part II. Other Information</b>	
Item 1A. Risk Factors	20
Item 6. Exhibits	20
Signatures	21

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****Champion Industries, Inc. and Subsidiaries  
Consolidated Balance Sheets**

<b>ASSETS</b>	<b>July 31, 2007 (Unaudited)</b>	<b>October 31, 2006 (Audited)</b>
Current assets:		
Cash and cash equivalents	\$ 4,929,140	\$ 5,486,577
Accounts receivable, net of allowance of \$1,653,000 and \$1,558,000	20,526,826	20,638,823
Inventories	10,587,379	10,986,590
Other current assets	972,580	618,549
Deferred income tax assets	1,235,599	1,200,037
Total current assets	38,251,524	38,930,576
Property and equipment, at cost:		
Land	2,023,375	2,023,375
Buildings and improvements	9,089,385	8,731,280
Machinery and equipment	50,016,932	46,757,859
Furniture and fixtures	3,728,709	3,620,783
Vehicles	3,543,308	3,453,415
	68,401,709	64,586,712
Less accumulated depreciation	(47,665,186)	(45,541,027)
	20,736,523	19,045,685
Cash surrender value of officers' life insurance	1,202,696	1,202,696
Goodwill	3,487,342	3,411,511
Other intangibles, net of accumulated amortization	2,895,994	3,125,691
Other assets	267,734	272,567
	7,853,766	8,012,465
Total assets	\$ 66,841,813	\$ 65,988,726

See notes to consolidated financial statements.

**Champion Industries, Inc. and Subsidiaries**  
**Consolidated Balance Sheets (continued)**

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>July 31, 2007 (Unaudited)</b>	<b>October 31, 2006 (Audited)</b>
Current liabilities:		
Accounts payable	\$ 4,114,362	\$ 5,763,928
Accrued payroll	2,193,871	2,169,878
Taxes accrued and withheld	1,406,696	1,394,345
Accrued income taxes	127,123	1,107,837
Accrued expenses	972,445	925,070
Current portion of long-term debt:		
Notes payable	1,715,951	1,614,861
Total current liabilities	10,530,448	12,975,919
Long-term debt, net of current portion:		
Notes payable, term	5,654,691	4,219,724
Other liabilities	388,044	388,384
Deferred income tax liabilities	3,468,136	3,628,014
Total liabilities	20,041,319	21,212,041
Shareholders' equity:		
Common stock, \$1 par value, 20,000,000 shares authorized; 9,962,913 and 9,922,913 shares issued and outstanding	9,962,913	9,922,913
Additional paid-in capital	22,722,680	22,636,620
Retained earnings	14,114,901	12,217,152
Total shareholders' equity	46,800,494	44,776,685
	\$	\$
Total liabilities and shareholders' equity	66,841,813	65,988,726

See notes to consolidated financial statements.

**Champion Industries, Inc. and Subsidiaries**  
**Consolidated Statements of Income**  
(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
<b>Revenues:</b>				
Printing	\$ 24,667,108	\$ 25,152,367	\$ 75,824,770	\$ 79,159,693
Office products and office furniture	10,924,751	9,357,973	28,520,299	29,062,924
Total revenues	35,591,859	34,510,340	104,345,069	108,222,617
<b>Cost of sales:</b>				
Printing	17,998,427	18,259,210	53,989,332	55,964,784
Office products and office furniture	7,841,171	6,493,508	20,061,128	20,390,685
Total cost of sales	25,839,598	24,752,718	74,050,460	76,355,469
Gross profit	9,752,261	9,757,622	30,294,609	31,867,148
<b>Selling, general and administrative expenses</b>				
	7,930,683	8,341,628	23,830,326	25,783,239
Hurricane and relocation costs, net of recoveries	-	-	-	(301,693)
Income from operations	1,821,578	1,415,994	6,464,283	6,385,602
<b>Other income (expense):</b>				
Interest income	13,751	10,074	31,825	24,200
Interest expense	(137,232)	(153,057)	(423,298)	(493,627)
Other	12,745	23,129	31,625	26,057
	(110,736)	(119,854)	(359,848)	(443,370)
Income before income taxes	1,710,842	1,296,140	6,104,435	5,942,232
Income tax (expense)	(679,350)	(519,398)	(2,415,041)	(2,441,398)
Net income	\$ 1,031,492	\$ 776,742	\$ 3,689,394	\$ 3,500,834
<b>Earnings per share</b>				
Basic	\$ 0.10	\$ 0.08	\$ 0.37	\$ 0.36
Diluted	\$ 0.10	\$ 0.08	\$ 0.36	\$ 0.35
<b>Weighted average shares outstanding:</b>				
Basic	9,963,000	9,865,000	9,954,000	9,786,000
Diluted	10,106,000	10,089,000	10,116,000	9,956,000
Dividends per share	\$ 0.06	\$ 0.05	\$ 0.18	\$ 0.15

See notes to consolidated financial statements.

**Champion Industries, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(Unaudited)

	Nine Months Ended July 31,	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 3,689,394	\$ 3,500,834
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,803,589	3,104,526
(Gain) loss on sale of assets	(11,303)	5,274
Deferred income taxes	(195,440)	(270,583)
Increase in deferred compensation	1,340	2,681
Bad debt expense	437,645	512,429
Hurricane and relocation costs, net of recoveries	-	(301,693)
Changes in assets and liabilities:		
Accounts receivable	(325,648)	(2,148,997)
Inventories	399,211	(115,496)
Other current assets	(354,031)	(126,892)
Accounts payable	(298,841)	(400,853)
Accrued payroll	23,993	272,444
Taxes accrued and withheld	12,351	340,409
Income taxes	(980,714)	(200,471)
Accrued expenses	47,375	(38,930)
Other liabilities	(1,680)	(3,086)
Net cash provided by operating activities	5,247,241	4,131,596
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(2,578,221)	(1,397,118)
Proceeds from sales of property	126,659	95,146
Goodwill additions	(1,481,556)	-
Other assets	(4,168)	(47,916)
Net cash used in investing activities	(3,937,286)	(1,349,888)
<b>Cash flows from financing activities:</b>		
Borrowings on line of credit	9,311,000	9,097,000
Payments on line of credit	(9,311,000)	(10,709,000)
Proceeds from term debt	2,654,254	80,010
Principal payments on long-term debt	(2,856,061)	(2,299,133)
Proceeds from exercise of stock options	126,060	475,270
Dividends paid	(1,791,645)	(1,469,535)
Net cash used in financing activities	(1,867,392)	(4,825,388)
Net decrease in cash and cash equivalents	(557,437)	(2,043,680)
Cash and cash equivalents, beginning of period	5,486,577	3,661,622
Cash and cash equivalents, end of period	\$ 4,929,140	\$ 1,617,942

See notes to consolidated financial statements.



**Champion Industries, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****July 31, 2007****1. Basis of Presentation and Business Operations**

The foregoing financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and rules and regulations of the Securities and Exchange Commission for interim financial reporting. The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In the opinion of management, the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP. These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended October 31, 2006, and related notes thereto contained in Champion Industries, Inc.’s Form 10-K dated January 15, 2007. The accompanying interim financial information is unaudited. The results of operations for the period are not necessarily indicative of the results to be expected for the full year. The balance sheet information as of October 31, 2006 was derived from our audited financial statements.

Historically, the Company has experienced a greater portion of its profitability in the second and fourth quarters than in the first and third quarters. The second quarter generally reflects post-holiday business activity coupled with increased orders for printing of corporate reports. A post-Labor Day increase in demand for printing services and office products coincides with the Company’s fourth quarter. The Company’s seasonality may also be impacted by contract furniture orders and the related timing associated with the completion of such orders.

In June 2006, the FASB Emerging Issues Tax Force (EITF) issued EITF 06-3 “*How Sales Taxes Collected from Customers and Remitted to Government Authorities Should be Presented in the Income Statement*” (That is, Gross Versus Net Presentation) to clarify diversity in practice on the presentation of different types of taxes in the financial statements. The task force concluded that, for taxes within the scope of the issue, a company may adopt a policy of presenting taxes either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charges for the taxes from the taxing authority. If taxes subject to EITF 06-3 are significant, a company is required to disclose its accounting policy for presenting taxes and the amounts of such taxes that are recognized on a gross basis. The guidance in this consensus is effective for the first interim reporting period beginning after December 15, 2006 (the second quarter of our fiscal year 2007). We adopted EITF 06-3 on February 1, 2007 and we record sales tax on a net basis. The adoption of EITF 06-3 did not have a material impact on our results of operations, financial position or cash flow.

**2. Earnings per Share**

Basic earnings per share is computed by dividing net income by the weighted average shares of common stock outstanding for the period and excludes any dilutive effects of stock options. Diluted earnings per share is computed by dividing net income by the weighted average shares of common stock outstanding for the period plus the shares that would be outstanding assuming the exercise of dilutive stock options. The dilutive effect of stock options was 143,000 and 162,000 shares for the three and nine months ended July 31, 2007 and 224,000 and 170,000 shares for the three and nine months ended July 31, 2006.

**3. Inventories**

Inventories are principally stated at the lower of first-in, first-out cost or market. Manufactured finished goods and work in process inventories include material, direct labor and overhead based on standard costs, which approximate actual costs. The Company utilizes an estimated gross profit method for determining cost of sales in interim periods.

Inventories consisted of the following:

July 31, 2007	October 31, 2006
------------------	---------------------



Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

<b>Printing:</b>			
Raw materials	\$	<b>2,027,805</b>	\$ 2,121,843
Work in process		<b>1,720,719</b>	1,800,517
Finished goods		<b>4,208,973</b>	4,404,162
Office products and office furniture		<b>2,629,882</b>	2,660,068
	\$	<b>10,587,379</b>	\$ 10,986,590

7

---

**Champion Industries, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited) (continued)**

**4. Long-Term Debt**

Long-term debt consisted of the following:

	<b>July 31,</b>	<b>October 31,</b>
	<b>2007</b>	<b>2006</b>
Secured term note payable	\$ 1,726,232	\$ 452,386
Installment notes payable to banks	<b>5,644,410</b>	5,382,199
	<b>7,370,642</b>	5,834,585
Less current portion	<b>1,715,951</b>	1,614,861
Long-term debt, net of current portion	<b>\$ 5,654,691</b>	\$ 4,219,724

The Company has an unsecured revolving line of credit with a bank for borrowings to a maximum of \$10,000,000 with interest payable monthly at the prime rate of interest. The line of credit expires in July 2010 and contains certain restrictive financial covenants. The Company had no outstanding borrowings under this facility at July 31, 2007 and October 31, 2006.

The Company has an unsecured revolving line of credit with a bank for borrowings to a maximum of \$1,000,000 with interest payable monthly at the Wall Street Journal prime rate. The line of credit expires in October 2008 and contains certain financial covenants. There were no borrowings outstanding under this facility at July 31, 2007 and October 31, 2006.

There was \$1.6 and \$1.7 million of non-cash financing and investing activities for the three and nine months ended July 31, 2007 and \$1.2 million for the three and nine months ended July 31, 2006 these activities primarily related to equipment purchases.

**5. Shareholders' Equity**

The Company paid a dividend of six cents per share on June 18, 2007 to stockholders of record on June 8, 2007. Also, the Company declared a dividend of six cents per share to be paid on September 21, 2007 to stockholders of record on September 4, 2007

The Company issued 40,000 shares of stock during the nine months ended July 31, 2007, that generated total proceeds from these stock options exercised of approximately \$126,000.

**Champion Industries, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited) (continued)**

**6. Commitments and Contingencies**

As of July 31, 2007 the Company had contractual obligations in the form of leases and debt as follows:

Contractual Obligations	Payments Due by Fiscal Year						Residual	Total
	2007	2008	2009	2010	2011			
Non-cancelable operating leases	\$ 273,264	\$ 930,247	\$ 532,666	\$ 255,056	\$ 157,042	\$ -	\$ 2,148,275	
Term debt	408,860	1,736,037	1,580,982	2,382,138	992,316	270,309	7,370,642	
Equipment purchase obligations	276,346	-	-	-	-	-	276,346	
	\$ 958,470	\$ 2,666,284	\$ 2,113,648	\$ 2,637,194	\$ 1,149,358	\$ 270,309	\$ 9,795,263	

The Company also entered into a purchase commitment for pre-press equipment with a manufacturer for \$345,000. As a result of this commitment the Company paid this manufacturer a deposit of \$69,000 as of July 31, 2007.

**7. Accounting for Stock-Based Compensation**

In December 2004, the FASB issued SFAS No. 123R (revised 2004), "*Share-Based Payment*." This statement revises SFAS No. 123, "*Accounting for Stock-Based Compensation*," and requires companies to expense the value of employee stock options and similar awards. Since the Company's outstanding employee stock options vested immediately in the year granted, the initial adoption of this standard had no effect on the Company's financial statements. However, the Company will be required to expense the fair value of the employee stock options when future options are granted or when existing options are modified or repurchased pursuant to the provisions of SFAS No. 123R.

The Company did not issue any employee stock options for the three and nine months ended July 31, 2007 and 2006.

**Champion Industries, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited) (continued)**

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
Net income, as reported	\$ 1,031,492	\$ 776,742	\$ 3,689,394	\$ 3,500,834
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	—	—	—	—
Pro forma net income	\$ 1,031,492	\$ 776,742	\$ 3,689,394	\$ 3,500,834
Earnings per share:				
Basic, as reported	\$ 0.10	\$ 0.08	\$ 0.37	\$ 0.36
Basic, pro forma	0.10	0.08	0.37	0.36
Diluted, as reported	\$ 0.10	\$ 0.08	\$ 0.36	\$ 0.35
Diluted, pro forma	0.10	0.08	0.36	0.35

## 8. Acquisitions

On June 28, 2007, the Company signed a definitive asset purchase agreement (the Purchase Agreement) to acquire the Herald-Dispatch daily newspaper published in Huntington West Virginia, from GateHouse Media, Inc. (Gatehouse) for a purchase price of \$77 million subject to adjustment as set forth in the purchase agreement. The parties to the agreement are Champion and a wholly owned subsidiary as a purchaser and Gatehouse Media, Inc., Gatehouse Media West Virginia Holdings, Inc., and Gatehouse Media Illinois Holdings, Inc. as sellers. The transaction is expected to close during the Company's fourth quarter, is subject to customary closing conditions and is subject to a breakup fee of 10% of the purchase price. Champion intends to finance the acquisition with debt. The Company is anticipated to incur substantial indebtedness to finance this transaction and as such would be subject to numerous restrictive financial covenants.

On September 7, 2004, the Company acquired all the issued and outstanding capital stock of Syscan Corporation ("Syscan"), a West Virginia corporation, for a cash price of \$3,500,000 and a contingent purchase price, dependent upon satisfaction of certain conditions, not to exceed the amount of \$1,500,000. On December 14, 2006, the Company paid the contingent purchase price in the amount of \$1,350,725.

The Williams Land Corporation has the option to put the 3000 Washington Street building occupied by Syscan to the Company for a price of \$1.5 million and the Company has the option to purchase the building for \$1.5 million at the conclusion of the five year lease term ending September 1, 2009. This option may be exercised no later than 60 days prior to the end of the lease and closing of said purchase cannot exceed 45 days from the end of the lease.

## 9. Accounting for Costs Associated with Exit or Disposal Activities and Impact of Hurricane Katrina

During the second quarter of 2005, the Company relocated its Chapman Printing Company Charleston division to a facility leased by the Company as a result of the acquisition of Syscan. The Company is currently evaluating its facility needs in Charleston, West Virginia and the future use, if any, of this building.

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

The Company moved its Dallas Printing operations from Jackson, MS to an existing facility in Baton Rouge, Louisiana in August 2005. The Company is currently evaluating its options regarding this facility.

On August 29, 2005, Hurricane Katrina made landfall and subsequently caused extensive flooding and destruction along the coastal areas of the Gulf of Mexico, including New Orleans and other communities in Louisiana and Mississippi in which Champion conducts business. Operations in many of the Company's markets were disrupted by both the evacuation of large portions of the population as well as damage and/or lack of access to the Company's operating facility in New Orleans.

10

---

**Champion Industries, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited) (continued)**

The Company filed insurance claims related to both actual and contingent losses. The Company received an advance to claim from an insurance company of \$300,000 in February 2006. A second advance to claim of \$200,000 was received in April 2006 and a check in the amount of \$78,000 in full settlement of any and all claims was received in May 2006. The Company recorded all of the payments as insurance recoveries for the year ended October 31, 2006. There was no Hurricane Katrina costs or recoveries recorded in 2007.

The Company has categorized the costs associated with Hurricane Katrina as follows:

- 1.) Personnel costs representing costs associated with payment of personnel primarily in New Orleans during the time period the city was essentially shut down;
- 2.) Plant costs represent all facilities, equipment and inventory charges incurred as a result of the hurricane using the most current available information;
- 3.) The allowance for doubtful accounts charge represents accounts receivable specifically reserved based on a collectibility analysis performed by the Company using the most current available information for customers located in the New Orleans area at that time;
- 4.) The relocation costs represent costs of closing the New Orleans production facility and associated costs of moving equipment.

The following table summarizes the cumulative costs incurred as of July 31, 2007 relating to Hurricane Katrina.

Personnel	\$ 88,423
Plant	745,035
Allowance for doubtful accounts	208,310
Moving and relocation costs	255,215
Total pre-tax hurricane expense	1,296,983
Lease settlement recovery	75,583
Insurance recoveries	577,677
Total recoveries	653,260
Cumulative impact of Hurricane Katrina, net	\$ 643,723

The Company recorded costs of \$1,020,999 for the three months ended October 31, 2005 and costs of \$275,984 and recoveries of \$653,260 for the year ended October 31, 2006 relating to Hurricane Katrina.

The costs and recoveries associated with Hurricane Katrina are reflected in the consolidated statements of operations in the category "Hurricane and relocation costs, net of recoveries" and are part of the printing segment.



**Champion Industries, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited) (continued)**

**10. Industry Segment Information**

The Company operates principally in two industry segments organized on the basis of product lines: the production, printing and sale, principally to commercial customers, of printed materials (including brochures, pamphlets, reports, tags, continuous and other forms) and the sale of office products and office furniture including interior design services.

The table below presents information about reported segments for the three months ended July 31:

<b>2007 Quarter 3</b>	<b>Office Products</b>		
	<b>Printing</b>	<b>&amp; Furniture</b>	<b>Total</b>
Revenues	\$ 27,833,445	\$ 12,896,219	\$ 40,729,664
Elimination of intersegment revenue	(3,166,337)	(1,971,468)	(5,137,805)
Consolidated revenues	\$ 24,667,108	\$ 10,924,751	\$ 35,591,859
Operating income	951,913	869,665	1,821,578
Depreciation & amortization	896,511	53,096	949,607
Capital expenditures	2,199,598	50,454	2,250,052
Identifiable assets	55,578,236	11,263,577	66,841,813
Goodwill	2,302,668	1,184,674	3,487,342
<b>2006 Quarter 3</b>	<b>Office Products</b>		
	<b>Printing</b>	<b>&amp; Furniture</b>	<b>Total</b>
Revenues	\$ 28,430,713	\$ 11,523,272	\$ 39,953,985
Elimination of intersegment revenue	(3,278,346)	(2,165,299)	(5,443,645)
Consolidated revenues	\$ 25,152,367	\$ 9,357,973	\$ 34,510,340
Operating income	775,321	640,673	1,415,994
Depreciation & amortization	986,691	48,158	1,034,849
Capital expenditures	1,416,391	71,189	1,487,580
Identifiable assets	50,608,573	10,195,463	60,804,036
Goodwill	1,774,344	286,442	2,060,786
<b>2007 Year to Date</b>	<b>Office Products</b>		
	<b>Printing</b>	<b>&amp; Furniture</b>	<b>Total</b>
Revenues	\$ 85,358,358	\$ 34,720,171	\$ 120,078,529
Elimination of intersegment revenue	(9,533,588)	(6,199,872)	(15,733,460)
Consolidated revenues	\$ 75,824,770	\$ 28,520,299	\$ 104,345,069
Operating income	4,684,803	1,779,480	6,464,283
Depreciation & amortization	2,646,115	157,474	2,803,589
Capital expenditures	4,221,201	94,884	4,316,085



Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

Identifiable assets	55,578,236	11,263,577	66,841,813
Goodwill	2,302,668	1,184,674	3,487,342

**Champion Industries, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements (Unaudited) (continued)**

2006 Year to Date	Office Products		Total
	Printing	& Furniture	
Revenues	\$ 90,132,905	\$ 35,823,711	\$ 125,956,616
Elimination of intersegment revenue	(10,973,212)	(6,760,787)	(17,733,999)
Consolidated revenues	\$ 79,159,693	\$ 29,062,924	\$ 108,222,617
Operating income	4,444,034	1,941,568	6,385,602
Depreciation & amortization	2,981,653	122,873	3,104,526
Capital expenditures	2,421,831	175,287	2,597,118
Identifiable assets	50,608,573	10,195,463	60,804,036
Goodwill	1,774,344	286,442	2,060,786

A reconciliation of total segment revenues and of total segment operating income to consolidated income before income taxes, for the three and nine months ended July 31, 2007 and 2006, is as follows:

	Three months		Nine months	
	2007	2006	2007	2006
<b>Revenues:</b>				
Total segment revenues	\$ 40,729,664	\$ 39,953,985	\$ 120,078,529	\$ 125,956,616
Elimination of intersegment revenue	(5,137,805)	(5,443,645)	(15,733,460)	(17,733,999)
Consolidated revenue	\$ 35,591,859	\$ 34,510,340	\$ 104,345,069	\$ 108,222,617
<b>Operating income:</b>				
Total segment operating income	\$ 1,821,578	\$ 1,415,994	\$ 6,464,283	\$ 6,385,602
Interest income	13,751	10,074	31,825	24,200
Interest expense	(137,232)	(153,057)	(423,298)	(493,627)
Other income	12,745	23,129	31,625	26,057
Consolidated income before income taxes	\$ 1,710,842	\$ 1,296,140	\$ 6,104,435	\$ 5,942,232
<b>Identifiable assets:</b>				
Total segment identifiable assets	\$ 66,841,813	\$ 60,804,036	\$ 66,841,813	\$ 60,804,036
Elimination of intersegment assets	—	—	—	—
Total consolidated assets	\$ 66,841,813	\$ 60,804,036	\$ 66,841,813	\$ 60,804,036

## Champion Industries, Inc. and Subsidiaries

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

## Results of Operations

The following table sets forth, for the periods indicated, information derived from the Consolidated Statements of Operations as a percentage of total revenues.

Percentage of Total Revenues				
	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
Revenues:				
Printing	69.3%	72.9%	72.7%	73.1%
Office products and office furniture	30.7	27.1	27.3	26.9
Total revenues	100.0	100.0	100.0	100.0
Cost of sales:				
Printing	50.6	52.9	51.8	51.7
Office products and office furniture	22.0	18.8	19.2	18.9
Total cost of sales	72.6	71.7	71.0	70.6
Gross profit	27.4	28.3	29.0	29.4
Selling, general and administrative expenses	22.3	24.2	22.8	23.8
Hurricane and relocation costs, net of recoveries	-	-	-	(0.3)
Income from operations	5.1	4.1	6.2	5.9
Interest income	0.0	0.0	0.0	0.0
Interest expense	(0.4)	(0.4)	(0.4)	(0.4)
Other income	0.1	0.1	0.0	0.0
Income before taxes	4.8	3.8	5.8	5.5
Income tax (expense)	(1.9)	(1.5)	(2.3)	(2.3)
Net income	2.9%	2.3%	3.5%	3.2%

The following table is a reconciliation of net income as reported to core net income, which is defined as generally accepted accounting principles (GAAP) net income adjusted for insurance recoveries, net of expenses associated with Hurricane Katrina. The Company believes that events associated with Hurricane Katrina require additional disclosure and therefore, the Company has disclosed additional non-GAAP financial measures in an effort to make the quarterly financial statements more useful to investors.

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2007	2006	2007	2006
Net income	\$ 1,031,000	\$ 777,000	\$ 3,689,000	\$ 3,501,000
Insurance recoveries, net of expenses	-	-	-	176,000
Core net income	\$ 1,031,000	\$ 777,000	\$ 3,689,000	\$ 3,325,000



**Champion Industries, Inc. and Subsidiaries**

**Management's Discussion and Analysis of Financial Condition  
and Results of Operations (continued)**

**Three Months Ended July 31, 2007 Compared to Three Months Ended July 31, 2006**

*Revenues*

Total revenues increased 3.1% in the third quarter of 2007 compared to the same period in 2006 from \$34.5 million to \$35.6 million. Printing revenue decreased 1.9% in the third quarter of 2007 to \$24.7 million from \$25.2 million in the third quarter of 2006. Office products and office furniture revenue increased 16.7% in the third quarter of 2007 to \$10.9 million from \$9.4 million in the third quarter of 2006. The increase in office products and office furniture sales was primarily due to organic growth since there were no new acquisitions since the fourth quarter of 2004. The growth in the office products and office furniture segment was reflective of strong furniture sales coupled with a slight increase in office supply sales.

*Cost of Sales*

Total cost of sales increased 4.4% in the third quarter of 2007 to \$25.8 million from \$24.8 million in the third quarter of 2006. Printing cost of sales in the third quarter of 2007 decreased \$261,000 over the prior year and increased as a percentage of printing sales from 72.6% in 2006 to 73.0% in 2007. The printing gross margin dollar decrease resulted from slightly lower sales volume coupled with higher cost of goods sold as percentage of sales primarily resulting from less absorption of fixed costs associated with labor and overhead. Office products and office furniture cost of sales increased in 2007 from 2006 levels due to increased sales and increased as a percent of sales from 69.4% in 2006 to 71.8% in 2007, primarily due to an increase in furniture cost of sales as a percent of sales.

*Operating Expenses*

In the third quarter of 2007, selling, general and administrative expenses (S,G&A) decreased on a gross dollar basis to \$7.9 million from \$8.3 million in 2006, a decrease of \$411,000 or 4.9%. As a percentage of total sales, the expenses decreased on a quarter to quarter basis in 2007 to 22.3% from 24.2% in 2006.

The Company continues to benefit from enhanced cost control initiatives and efforts to rationalize S,G&A components as evidenced by the approximate two percentage point reduction in S,G&A as a percent of sales in the third quarter of 2007 compared to the comparable period in 2006.

**Champion Industries, Inc. and Subsidiaries**

**Management's Discussion and Analysis of Financial Condition  
and Results of Operations (continued)**

*Income from Operations and Other Income and Expenses*

Income from operations increased in the third quarter of 2007 to \$1.8 million from \$1.4 million in the third quarter of 2006. The gross margin contribution remained stable in the third quarter of 2007 when compared to the third quarter of 2006. This increase, therefore, was a result of decreased S,G&A and a decrease in S,G & A as a percent of sales.

*Income Taxes*

The Company's effective income tax rate was 39.7% for the third quarter of 2007 and 40.1% for the third quarter of 2006. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate and is partially impacted by the geographic profitability mix of our operations, anticipated effective rate, selling related expenses and other permanent differences.

*Net Income*

Net income for the third quarter of 2007 was \$1.0 million compared to \$777,000 in the third quarter of 2006. Basic and diluted earnings per share for the three months ended July 31, 2007 and 2006 were \$0.10 and \$0.08.

**Nine Months Ended July 31, 2007 Compared to Nine Months Ended July 31, 2006**

*Revenues*

Total revenues decreased 3.6% in the first nine months of 2007 compared to the same period in 2006 to \$104.3 million from \$108.2 million. Printing revenue decreased 4.2% in the nine month period ended July 31, 2007 to \$75.8 million from \$79.2 million in the same period in 2006. Office products and office furniture revenue decreased 1.9% in the nine month period ended July 31, 2007 to \$28.5 million from \$29.1 million in the same period in 2006. The decrease in printing sales was primarily due to lower second quarter sales at several of the Company's commercial plants that operate primarily in the sheetfed arena. The decrease in the office products and office furniture segment was reflective of lower furniture sales associated with contract furniture projects of which the Company recorded improved results in the third quarter of 2007.

*Cost of Sales*

Total cost of sales decreased 3.0% in the nine months ended July 31, 2007 to \$74.1 million from \$76.4 million in the nine months ended July 31, 2006. Printing cost of sales decreased 3.5% in the nine months ended July 31, 2007 to \$54.0 million from \$56.0 million in the nine months ended July 31, 2006. The decrease in printing cost of sales was primarily due to the decrease in printing sales noted above coupled with a slight gross margin reduction resulting from labor and overhead thus less absorption partially offset by lower material and outside purchase costs as a percent of sales. Office products and office furniture cost of sales decreased 1.6% in the nine months ended July 31, 2007 to \$20.1 million from \$20.4 million in the nine months ended July 31, 2006 and increased as a percent of sales from 70.2% in 2006 to 70.3% in 2007. The decrease in office products and office furniture cost of sales is attributable to an decrease in office products and office furniture sales.

*Operating Expenses*

During the nine months ended July 31, 2007 compared to the same period in 2006, selling, general and administrative expenses decreased as a percentage of sales to 22.8% from 23.8%. Total S,G&A decreased \$2.0 million. The decrease in selling, general and administrative expenses is primarily due to reduced payroll and payroll related costs due in part to both lower sales and the Company's cost reduction strategy.

**Champion Industries, Inc. and Subsidiaries**

**Management's Discussion and Analysis of Financial Condition  
and Results of Operations (continued)**

On August 29, 2005, Hurricane Katrina made landfall and subsequently caused extensive flooding and destruction along the coastal areas of the Gulf of Mexico, including New Orleans and other communities in Louisiana and Mississippi in which Champion conducts business. Operations in many of the Company's markets were disrupted by both the evacuation of large portions of the population as well as damage and/or lack of access to the Company's operating facility in New Orleans.

The Company filed insurance claims related to both actual and contingent losses. The Company received an advance to claim payment from an insurance company of \$300,000 in February 2006 and final settlement claims of \$278,000 in April and May 2006. The Company recorded the \$300,000 payment as an insurance recovery and related receivable at January 31, 2006. The Company recorded additional charges of approximately \$42,000 in the first quarter of 2006 associated with Hurricane Katrina. The Company received a second advance to claim check in April of 2006 in the amount of \$200,000 and a full and final settlement of any and all claims check of \$78,000 in May of 2006. The Company recorded the aggregate amount of these checks as an insurance recovery and the \$78,000 as a related receivable at April 30, 2006. The Company incurred additional charges of \$234,000, primarily related to additional inventory valuation reserves and costs associated with relocation in the second quarter of 2006. During the fourth quarter of 2006, the Company successfully negotiated an early lease termination related to its New Orleans location resulting in Katrina related recoveries of approximately \$76,000. There were no Hurricane Katrina costs of recoveries recorded in 2007.

*Income from Operations and Other Income and Expenses*

Income from operations increased 1.2% in the nine month period ended July 31, 2007 to \$6.5 million from \$6.4 million in the same period of 2006. This increase is the result of decreases in S,G&A and a reduction of S,G&A as a percent of sales in 2007 compared to 2006. This improvement was partially offset by a reduction in gross profit primarily due to lower sales and Hurricane Katrina relocation net recoveries of \$300,000 in 2006 not present in 2007. Other expense decreased \$84,000 to \$360,000 in 2007 from \$443,000 in 2006. This decrease is primarily due to a \$70,000 decrease in interest expense resulting from lower average borrowings in 2007 compared to 2006.

*Income Taxes*

The Company's effective income tax rate was 39.6% for the nine months ended July 31, 2007, down from 41.1% in the same period of 2006. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate and is partially impacted by the geographic profitability mix of our operations, anticipated effective rate, selling related expenses and other permanent differences.

*Net Income*

Net income for the first nine months of 2007 increased 5.4% to \$3.7 million from \$3.5 in the same period of 2006 due to the reasons discussed above. Basic and diluted earnings per share for the nine months ended July 31, 2007 were \$0.37 and \$0.36 and for 2006 were \$0.36 and \$0.35. The Company reported core net income of \$3,689,000 or \$0.37 and \$0.36 per share on a basic and diluted basis for the nine months ended July 31, 2007 and core net income of \$3,325,000 at \$0.34 and \$0.33 per share on a basic and diluted basis for the nine months ended July 31, 2006. Core net income does not include the insurance recovery, net of expenses. (See Explanatory Table in "Results of Operations" section.)

**Inflation and Economic Conditions**



Management believes that the effect of inflation on the Company's operations has not been material and will continue to be immaterial for the foreseeable future. The Company does not have long-term sales and purchase contracts; therefore, to the extent permitted by competition, it has the ability to pass through to the customer most cost increases resulting from inflation, if any.

17

---

**Champion Industries, Inc. and Subsidiaries**

**Management's Discussion and Analysis of Financial Condition  
and Results of Operations (continued)**

**Seasonality**

Historically, the Company has experienced a greater portion of its profitability in the second and fourth quarters than in the first and third quarters. The second quarter generally reflects post-holiday business activity coupled with increased orders for printing of corporate reports. A post-Labor Day increase in demand for printing services and office products coincides with the Company's fourth quarter. The Company's seasonality may also be impacted by contract furniture orders and the related timing associated with the completion of such orders.

**Liquidity and Capital Resources**

Net cash provided by operations for the nine months ended July 31, 2007, was \$5.2 million compared to net cash provided by operations of \$4.1 million during the same period in 2006. This change in net cash from operations is due primarily to timing changes in assets and liabilities primarily related to changes in accounts receivable.

Net cash used in investing activities for the nine months ended July 31, 2007 was \$3.9 million compared to \$1.3 million during the same period in 2006. The net cash used in investing activities during the first nine months of 2007 primarily related to the payment of the contingent purchase price for the Syscan acquisition, capital expenditures in 2007 for the buildout of the facility occupied by Champion Output Solutions and other equipment and vehicle purchases. The net cash used in investing activities during the first nine months of 2006 primarily related to vehicle and equipment purchases including mail service equipment upgrades, software purchases in the office products and office furniture segment, press additions, and upgrades and numerous information technology related expenditures.

Net cash used in financing activities for the nine months ended July 31, 2007 was \$1.9 million compared to \$4.8 million during the same period in 2006. This change is primarily due to net payments on the Company's debt of \$0.2 million in fiscal 2007 compared with net payments on the Company's debt of approximately \$3.8 million in 2006.

The Company's off balance sheet arrangements at July 31, 2007 relate to the Syscan acquisition and are associated with a put option from Williams Land Corporation to sell a building to the Company for \$1.5 million. This option may be exercised no later than 60 days prior to the end of the lease and closing of said purchase cannot exceed 45 days from the end of the lease. The lease term concludes effective September 1, 2009.

On June 28, 2007, the Company signed a definitive asset purchase agreement (the Purchase Agreement) to acquire the Herald-Dispatch daily newspaper published in Huntington West Virginia, from GateHouse Media, Inc. (Gatehouse) for a purchase price of \$77 million subject to adjustment as set forth in the purchase agreement. The parties to the agreement are Champion and a wholly owned subsidiary as a purchaser and Gatehouse Media, Inc., Gatehouse Media West Virginia Holdings, Inc., and Gatehouse Media Illinois Holdings, Inc. as sellers. The transaction is expected to close during the Company's fourth quarter, is subject to customary closing conditions and is subject to a breakup fee of 10% of the purchase price. Champion intends to finance the acquisition with debt. The Company is anticipated to incur substantial indebtedness to finance this transaction and as such would be subject to numerous restrictive financial covenants.

Working capital on July 31, 2007 was \$27.7 million and at October 31, 2006 was \$26.0 million. Management believes that working capital and operating ratios remain at acceptable levels.

The Company entered into a purchase commitment for pre-press equipment with a manufacturer for \$345,000. As a result of this commitment the Company paid this manufacturer a deposit of \$69,000 as of July 31, 2007.

The Company expects that the combination of funds available from working capital, borrowings available under the Company's credit facilities and anticipated cash flows from operations will provide sufficient capital resources for the

foreseeable future. In the event the Company seeks to accelerate internal growth or make acquisitions beyond these sources, additional financing would be necessary.

**Champion Industries, Inc. and Subsidiaries**

**Management's Discussion and Analysis of Financial Condition  
and Results of Operations (continued)**

**Environmental Regulation**

The Company is subject to the environmental laws and regulations of the United States, and the states in which it operates, concerning emissions into the air, discharges into the waterways and the generation, handling and disposal of waste materials. The Company's past expenditures relating to environmental compliance have not had a material effect on the Company. These laws and regulations are constantly evolving, and it is impossible to predict accurately the effect they may have upon the capital expenditures, earnings, and competitive position of the Company in the future. Based upon information currently available, management believes that expenditures relating to environmental compliance will not have a material impact on the financial position of the Company.

**Special Note Regarding Forward-Looking Statements**

Certain statements contained in this Form 10-Q, including without limitation statements including the word "believes," "anticipates," "intends," "expects" or words of similar import, constitute "forward-looking statements" within the meaning of section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements of the Company expressed or implied by such forward-looking statements. Such factors include, among others, general economic and business conditions, general economic and business conditions in the Company's market areas affected by Hurricane Katrina, changes in business strategy or development plans and other factors referenced in this Form 10-Q, including without limitations under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." The Company disclaims any obligation to update any such factors or to publicly announce the results of any revisions to any of the forward-looking statements contained herein to reflect future events or developments.

**ITEM 3. Quantitative and Qualitative Disclosure About Market Risk**

The Company does not have any significant exposure relating to market risk.

**ITEM 4. Controls and Procedures**

Company management, including the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-15c as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There were no changes in internal controls over financial reporting during the last fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

**PART II - OTHER INFORMATION**

**Item 1A. Risk Factors**

There were no material changes in risk factors from disclosures previously reported in our annual report on Form 10-K for the fiscal year ended October 31, 2006.

**Item 6. Exhibits**

a)	Exhibits:
(2.1) Asset Purchase Agreement by and among Gatehouse Media, Inc., Gatehouse Media West Virginia Holdings, Inc., Gatehouse Media Illinois Holdings, Inc., Champion Publishing, Inc. and Champion Industries, Inc. dated June 28, 2007	Exhibit 2.1 Page Exhibit 2.1-p1
(10.1) \$262,013 Master Loan Agreement between Champion Industries, Inc. and U.S. Bancorp Equipment Finance, Inc. dates as of May 30, 2007	Exhibit 10.1 Page Exhibit 10.1-p1
(10.2) \$1,750,000 term promissory note with commercial security agreement and business loan agreement between Champion Industries, Inc. and Community Trust Bank, Inc. dated as of June 12, 2007	Exhibit 10.2 Page Exhibit 10.2-p1
(31.1) Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley act of 2002 - Marshall T. Reynolds	Exhibit 31.1 Page Exhibit 31.1-p1
(31.2) Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley act of 2002 - Todd R. Fry	Exhibit 31.2 Page Exhibit 31.2-p1
(31.3) Principal Operating Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley act of 2002 - Toney K. Adkins	Exhibit 31.3 Page Exhibit 31.3-p1
(32) Marshall T. Reynolds, Todd R. Fry and Toney K. Adkins Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley act of 2002	Exhibit 32 Page Exhibit 32-p1



**Signatures**

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

CHAMPION INDUSTRIES, INC.

Date: September 10, 2007

/s/ Marshall T. Reynolds  
Marshall T. Reynolds  
Chief Executive Officer

Date: September 10, 2007

/s/ Toney K. Adkins  
Toney K. Adkins  
President and Chief Operating Officer

Date: September 10, 2007

/s/ Todd R. Fry  
Todd R. Fry  
Senior Vice President and Chief Financial  
Officer