

CHAMPION INDUSTRIES INC
Form 10-Q
March 12, 2010
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 January 31, 2010

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 1st 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No .

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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 January 31, 2010 |
|--|---------------------------------|
| Common stock, \$1.00 par value per share | 9,987,913 shares |

Champion Industries, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Champion Industries, Inc. and Subsidiaries
Consolidated Balance Sheets

| ASSETS | January 31, 2010 (Unaudited) | October 31, 2009 (Audited) |
|--|------------------------------------|----------------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ - | \$ 1,159,282 |
| Accounts receivable, net of allowance of \$1,343,000 and 1,353,000 | 17,691,711 | 18,424,310 |
| Inventories | 10,580,057 | 11,161,977 |
| Income tax refund | 2,522,292 | 1,911,400 |
| Other current assets | 1,261,180 | 925,120 |
| Deferred income tax assets | 1,000,847 | 1,000,847 |
| Total current assets | 33,056,087 | 34,582,936 |
| Property and equipment, at cost: | | |
| Land | 2,016,148 | 2,016,148 |
| Buildings and improvements | 11,817,789 | 11,806,238 |
| Machinery and equipment | 57,628,390 | 57,481,742 |
| Furniture and fixtures | 4,129,537 | 4,129,537 |
| Vehicles | 3,123,939 | 3,145,772 |
| | 78,715,803 | 78,579,437 |
| Less accumulated depreciation | (54,095,824) | (53,170,108) |
| | 24,619,979 | 25,409,329 |
| Goodwill | 15,332,283 | 15,332,283 |
| Deferred financing costs | 1,121,832 | 1,199,199 |
| Other intangibles, net of accumulated amortization | 5,421,935 | 5,645,078 |
| Trademark and masthead | 10,001,812 | 10,001,812 |
| Deferred tax asset, net of current portion | 8,344,185 | 8,799,518 |
| Other assets | 47,446 | 51,738 |
| | 40,269,493 | 41,029,628 |
| Total assets | \$ 97,945,559 | \$ 101,021,893 |

See notes to consolidated financial statements.

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

| LIABILITIES AND SHAREHOLDERS' EQUITY | January 31, 2010 (Unaudited) | October 31, 2009 (Audited) |
|---|------------------------------------|----------------------------------|
| Current liabilities: | | |
| Notes payable, line of credit | \$ 9,285,496 | \$ 8,725,496 |
| Negative book cash balances | 670,812 | - |
| Accounts payable | 6,293,769 | 4,637,199 |
| Accrued payroll and commissions | 1,727,376 | 2,392,971 |
| Taxes accrued and withheld | 1,694,622 | 1,391,718 |
| Accrued expenses | 2,146,438 | 2,027,266 |
| Other current liabilities | 678,814 | 962,893 |
| Current portion of long-term debt: | | |
| Notes payable | 48,844,495 | 57,024,424 |
| Total current liabilities | 71,341,822 | 77,161,967 |
| Long-term debt, net of current portion: | | |
| Notes payable | 3,875,383 | 918,436 |
| Other liabilities | 6,900 | 7,350 |
| Total liabilities | 75,224,105 | 78,087,753 |
| Shareholders' equity: | | |
| Common stock, \$1 par value, 20,000,000 shares authorized; 9,987,913 shares issued and outstanding | 9,987,913 | 9,987,913 |
| Additional paid-in capital | 22,768,610 | 22,768,610 |
| Retained deficit | (10,035,069) | (9,822,383) |
| Total shareholders' equity | 22,721,454 | 22,934,140 |
| Total liabilities and shareholders' equity | \$ 97,945,559 | \$ 101,021,893 |

See notes to consolidated financial statements.

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Champion Industries, Inc. and Subsidiaries

Consolidated Statements of Operations
(Unaudited)

| | Three Months Ended January 31, | |
|---|-----------------------------------|-----------------|
| | 2010 | 2009 (Restated) |
| Revenues: | | |
| Printing | \$ 19,749,471 | \$ 23,140,821 |
| Office products and office furniture | 8,261,714 | 9,237,402 |
| Newspaper | 4,376,061 | 4,512,790 |
| Total revenues | 32,387,246 | 36,891,013 |
| Cost of sales and newspaper operating costs: | | |
| Printing | 14,721,374 | 17,974,794 |
| Office products and office furniture | 5,931,021 | 6,696,650 |
| Newspaper cost of sales and operating costs | 2,128,606 | 2,440,302 |
| Total cost of sales and newspaper operating costs | 22,781,001 | 27,111,746 |
| Gross profit | 9,606,245 | 9,779,267 |
| Selling, general and administrative expenses | 8,716,644 | 9,777,113 |
| Income from operations | 889,601 | 2,154 |
| Other income (expenses): | | |
| Interest income | - | 2,724 |
| Interest expense | (1,569,812) | (1,099,333) |
| Other | 304,581 | 24,112 |
| | (1,265,231) | (1,072,497) |
| (Loss) before income taxes | (375,630) | (1,070,343) |
| Income tax benefit | 162,944 | 435,972 |
| Net (loss) | \$ (212,686) | \$ (634,371) |
| (Loss) per share | | |
| Basic | \$ (0.02) | \$ (0.06) |
| Diluted | \$ (0.02) | \$ (0.06) |
| Weighted average shares outstanding: | | |
| Basic | 9,988,000 | 9,988,000 |
| Diluted | 9,988,000 | 9,988,000 |
| Dividends per share | \$ - | \$ 0.06 |

See notes to consolidated financial statements.

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Champion Industries, Inc. and Subsidiaries
 Consolidated Statements of Shareholders' Equity
 (Unaudited)

| | Common Stock | | Additional | Retained | Other | |
|--|--------------|--------------|---------------|-----------------|---------------|---------------|
| | Shares | Amount | Paid-In | Deficit | Comprehensive | Total |
| | | | Capital | | Loss | |
| Balance, October 31, 2009 | 9,987,913 | \$ 9,987,913 | \$ 22,768,610 | \$ (9,822,383) | \$ - | \$ 22,934,140 |
| Comprehensive loss: | | | | | | |
| Net loss for 2010 | - | - | - | (212,686) | - | (212,686) |
| Other comprehensive loss (net of tax) | - | - | - | - | - | - |
| Total comprehensive loss | - | - | - | (212,686) | - | (212,686) |
| Balance, January 31, 2010 | 9,987,913 | \$ 9,987,913 | \$ 22,768,610 | \$ (10,035,069) | \$ - | \$ 22,721,454 |

See notes to consolidated financial statements.

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

| | Three Months Ended January 31, | |
|---|--------------------------------|-----------------|
| | 2010 | 2009 (Restated) |
| Cash flows from operating activities: | | |
| Net (loss) | \$ (212,686) | \$ (634,371) |
| Adjustments to reconcile net (loss) to cash provided by operating activities: | | |
| Depreciation and amortization | 1,217,641 | 1,316,320 |
| (Gain) on sale of assets | (1,075) | (14,113) |
| Deferred income taxes | 455,333 | 340,981 |
| Deferred financing costs | 77,368 | 77,368 |
| Bad debt expense | 102,966 | 266,910 |
| (Gain) on hedging agreements | (284,079) | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | 629,633 | 4,224,262 |
| Inventories | 581,920 | 399,999 |
| Other current assets | (336,060) | (280,211) |
| Accounts payable | 1,656,570 | (321,265) |
| Accrued payroll and commission | (665,595) | (867,882) |
| Taxes accrued and withheld | 302,904 | 92,368 |
| Income taxes | (610,892) | (781,590) |
| Accrued expenses | 119,172 | 233,205 |
| Other liabilities | (450) | (450) |
| Net cash provided by operating activities | 3,032,670 | 4,051,531 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (107,203) | (560,747) |
| Proceeds from sales of fixed assets | 9,392 | 33,358 |
| Change in other assets | 1,292 | 1,292 |
| Net cash used in investing activities | (96,519) | (526,097) |
| Cash flows from financing activities: | | |
| Borrowing on line of credit | 8,520,000 | - |
| Payments on line of credit | (7,960,000) | - |
| Increase in negative book cash balances | 670,812 | 389,876 |
| Principal payments on long-term debt | (5,326,245) | (3,316,034) |
| Dividends paid | - | (599,276) |
| Net cash used in financing activities | (4,095,433) | (3,525,434) |
| Net (decrease) in cash and cash equivalents | (1,159,282) | - |
| Cash and cash equivalents, beginning of period | 1,159,282 | - |
| Cash and cash equivalents, end of period | \$ - | \$ - |

See notes to consolidated financial statements.

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

January 31, 2010

1. Basis of Presentation, Business Operations and Recent Accounting Pronouncements

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, 2009, and related notes thereto contained in Champion Industries, Inc.'s Form 10-K dated January 27, 2010. 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, 2009 was derived from our audited financial statements.

The Company identified approximately \$0.3 million or \$0.03 per share on a basic and diluted basis of non-cash deferred tax related adjustments for the first quarter of 2009. This adjustment was initially recorded in the fourth quarter of 2009 for the full year and therefore the interim periods for 2009 have been restated accordingly to reflect such adjustment. Accordingly, the Consolidated Financial statements for January 31, 2009 have been restated to increase deferred income tax expense and to increase deferred income tax liability. This adjustment is related to the goodwill, trade name and masthead associated with the acquisition of The Herald-Dispatch. This deferred tax liability will remain on the balance sheet until such time as the associated intangible assets are impaired, sold, or otherwise disposed of. Certain prior-year amounts have been reclassified to conform to the current year financial statement presentation.

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 0 shares for the three months ended January 31, 2010 and 2009.

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited) (continued)

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:

| | January 31, 2010 | October 31, 2009 |
|--------------------------------------|---------------------|---------------------|
| Printing and newspaper: | | |
| Raw materials | \$ 2,867,433 | \$ 2,854,938 |
| Work in process | 1,576,095 | 1,405,320 |
| Finished goods | 3,487,281 | 3,765,244 |
| Office products and office furniture | 2,649,248 | 3,136,475 |
| | \$ 10,580,057 | \$ 11,161,977 |

4. Long-Term Debt

Long-term debt consisted of the following:

| | January 31, 2010 | October 31, 2009 |
|--|---------------------|---------------------|
| Installment notes payable to banks & shareholder | \$ 4,312,436 | \$ 1,310,418 |
| Term loan facility with a bank | 48,407,442 | 56,632,442 |
| | 52,719,878 | 57,942,860 |
| Less current portion | 48,844,495 | 57,024,424 |
| Long-term debt, net of current portion | \$ 3,875,383 | \$ 918,436 |

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited) (continued)

On December 29, 2009, the Administrative Agent and Lenders under the Company's Credit Agreement dated September 14, 2007 ("Credit Agreement"), the Company and Marshall T. Reynolds entered into a Forbearance Agreement (the "Forbearance Agreement") which provides, among other things, that during a standstill period commencing on December 29, 2009 and ending on March 31, 2010 (unless sooner terminated by default of Champion under the Forbearance Agreement or the Credit Agreement), the Required Lenders are willing to temporarily forbear exercising certain rights and remedies available to them, including acceleration of the obligations or enforcement of any of the liens provided for in the Credit Agreement. The Company acknowledged in the Forbearance Agreement that as a result of the existing defaults, the Lenders are entitled to decline to provide further credit to the Company, to terminate their loan commitments, to accelerate the outstanding loans, and to enforce their liens.

The Company has been working with the different creditors to restructure the existing debt; however, an agreement satisfactory to the Company has not been reached. Upon the expiration of the Forbearance Agreement, a total of \$57,692,938 of long-term debt and outstanding revolving line of credit borrowing are subject to accelerated maturity and, as such, the creditors may, at their option, give notice to the Company that amounts owed are immediately due and payable. As a result, the full amount of the related long-term debt has been classified as a current liability in the accompanying Balance Sheet at January 31, 2010 and October 31, 2009 representing \$52,792,938 and \$60,457,938. Regardless of the non-compliance with financial covenants, the Company has made every scheduled payment of principal and interest, including an excess cash flow recapture payment of approximately \$2.0 million in January 2009 and pursuant to the terms and of the Forbearance Agreement a payment of \$7.0 million in term loans in December 2009.

The Company is required to make certain mandatory payments on its credit facilities related to (1) net proceeds received from a loss subject to applicable thresholds, (2) equity proceeds and (3) effective January 31, 2009, and continuing each year thereafter under the terms of the agreement the Company is required to prepay its credit facilities by 75% of excess cash flow for its most recently completed fiscal year. The excess cash flow for purposes of this calculation is defined as the difference (if any) between (a) EBITDA for such period and (b) federal, state and local income taxes paid in cash during such period plus capital expenditures during such period not financed with indebtedness plus interest expense paid in cash during such period plus the aggregate amount of scheduled payments made by the Borrower and its Subsidiaries during such period in respect of all principal on all indebtedness (whether at maturity, as a result of mandatory sinking fund redemption, or otherwise), plus restricted payments paid in cash by the Borrower during such period in compliance with the credit agreement. The Company paid its prepayment obligation of approximately \$2.0 million in January 2009 and had no balance due under its prepayment obligation for fiscal 2009 that would have been payable January 2010.

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

Maturities of long-term debt for each of the next five years follow:

| | | |
|------|----|------------|
| 2010 | \$ | 48,844,495 |
| 2011 | | 387,682 |
| 2012 | | 309,082 |
| 2013 | | 3,138,604 |
| 2014 | | 40,015 |
| | \$ | 52,719,878 |

The Company was previously permitted to borrow a maximum of \$30,000,000 under its revolving line of credit subject to a borrowing base limitation with interest payable monthly at the prime rate of interest and/or LIBOR plus a margin. In November of 2009 the Administrative Agent advised the Company that the aggregate availability under its revolving credit commitments would be \$20,000,000. In December of 2009, the Administrative Agent notified the Company that Eurodollar loans would no longer be permitted. Therefore, all future borrowings will be indexed from the base rate (prime rate based) plus the applicable margin. The Company had borrowed \$9,285,496 under this facility at January 31, 2010 and \$8,725,496 at October 31, 2009. Pursuant to the terms of the Forbearance Agreement the borrowing base certificate at October 31, 2009 would have reflected minimum excess availability of approximately \$8.9 million and \$6.9 million at January 31, 2010. The minimum excess availability and cash and cash equivalents threshold at January 31, 2010 and October 31, 2009, reflective of the terms of the Forbearance Agreement, was subject to a \$1.0 million minimum excess availability threshold. Any reserves, which may be applied at the sole discretion of the Administrative Agent, are not reflected in the availability calculations. In 2009, the Administrative Agent revised the borrowing base calculation, which limited the eligibility of certain accounts receivable and pursuant to the filing of its December 31, 2009 borrowing base the Company was notified of an additional \$1.5 million reserve being instituted by the Administrative Agent. The line of credit expires in September 2012 and contains certain restrictive financial covenants, is subject to borrowing base limitations and is collateralized by substantially all of the assets of the Company.

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. This line of credit expires in July 2010 is subject to a floor of 4.25% and contains certain financial covenants. There were no borrowings outstanding under this facility at January 31, 2010 and October 31, 2009.

The Company may incur costs in 2010 related to facility consolidations, employee termination costs and other restructuring related activities. These costs may be incurred, in part, as a response to the Company's efforts to overcome the impact of the global economic crisis.

There were no non-cash financing and investing activities for the three months ended January 31, 2009 and equipment and vehicle purchases of \$103,000 for the three months ended January 31, 2010. On December 29, 2009 concurrent with the Forbearance Agreement, Marshall T. Reynolds prepaid \$3.0 million of the Company's loans in exchange for a \$3.0 million subordinated unsecured promissory note.

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

5. Commitments and Contingencies

As of January 31, 2010 the Company had contractual obligations in the form of leases and debt as follows:

| Contractual Obligations | Payments Due by Fiscal Year | | | | | Total |
|---------------------------------|-----------------------------|--------------|--------------|--------------|------------|---------------|
| | 2010 | 2011 | 2012 | 2013 | 2014 | |
| Non-cancelable operating leases | \$ 988,031 | \$ 1,106,930 | \$ 932,343 | \$ 845,884 | \$ 271,640 | \$ 4,144,828 |
| Revolving line of credit | 9,285,496 | - | - | - | - | 9,285,496 |
| Term debt | 48,764,024 | 391,866 | 307,535 | 3,186,438 | 70,015 | 52,719,878 |
| | \$ 59,037,551 | \$ 1,498,796 | \$ 1,239,878 | \$ 4,032,322 | \$ 341,655 | \$ 66,150,202 |

6. Share-Based Compensation

FASB ASC 718 (ASC 718) 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 ASC 718.

The Company did not issue any employee stock options for the three months ended January 31, 2010 and 2009.

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited) (continued)

7. Industry Segment Information

The Company operates principally in three 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), the sale of office products and office furniture including interior design services and publication of The Herald-Dispatch daily newspaper in Huntington, WV with a total daily and Sunday circulation of approximately 24,000 and 30,000, respectively.

Our financial reporting systems present various data which is used to operate and measure our operating performance, including internal statements of operations which are prepared on a basis inconsistent with GAAP. Therefore, the segment reporting may not necessarily be consistent with GAAP reporting. Furthermore, because of our integrated business structure, operating costs included in one segment may benefit other segments, as a result of this structure these segments are not specifically designed to measure operating income or loss directly related to the products or services included in each segment.

The identifiable assets are reflective of non-GAAP assets reported on the Company's internal balance sheets and are typically adjusted for negative book cash balances, taxes, and other items excluded for segment reporting. The total assets reported on the Company's balance sheet as of January 31, 2010 and 2009 are \$97,945,559 and \$136,595,997. The identifiable assets reported above represent \$86,408,270 and \$133,726,731 at January 31, 2010 and 2009. Amounts for prior periods have been recast to conform to the current management view.

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

| 2010 Quarter 1 | Printing | Office Products & Furniture | Newspaper | Total |
|-------------------------------------|--------------|-----------------------------------|-------------|--------------|
| Revenues | \$22,396,030 | \$9,892,392 | \$4,376,061 | \$36,664,483 |
| Elimination of intersegment revenue | (2,646,559) | (1,630,678) | - | (4,277,237) |
| Consolidated revenues | \$19,749,471 | \$8,261,714 | \$4,376,061 | \$32,387,246 |
| Operating income (loss) | (494,561) | 369,251 | 1,014,911 | 889,601 |
| Depreciation & amortization | 786,190 | 37,833 | 393,618 | 1,217,641 |
| Capital expenditures | 181,079 | 4,046 | 25,341 | 210,466 |
| Identifiable assets | 42,942,206 | 6,987,433 | 36,478,631 | 86,408,270 |
| Goodwill | 2,226,837 | 1,230,485 | 11,874,961 | 15,332,283 |

| 2009 Quarter 1 | Printing | Office Products and Furniture | Newspaper | Total |
|-------------------------------------|--------------|--|-------------|--------------|
| Revenues | \$25,812,318 | \$11,010,923 | \$4,512,790 | \$41,336,031 |
| Elimination of intersegment revenue | (2,671,497) | (1,773,521) | - | (4,445,018) |

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| | | | | |
|-----------------------------|--------------|-------------|-------------|--------------|
| Consolidated revenues | \$23,140,821 | \$9,237,402 | \$4,512,790 | \$36,891,013 |
| Operating income (loss) | (909,752) | 249,651 | 662,255 | 2,154 |
| Depreciation & amortization | 840,113 | 50,389 | 425,818 | 1,316,320 |
| Capital expenditures | 467,973 | 57,137 | 35,637 | 560,747 |
| Identifiable assets | 45,899,959 | 8,929,626 | 78,897,146 | 133,726,731 |
| Goodwill | 2,226,837 | 1,230,485 | 35,437,456 | 38,894,778 |

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Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited) (continued)

A reconciliation of total segment revenues and of total segment operating income to consolidated (loss) before income taxes, for the three months ended January 31, 2010 and 2009, is as follows:

| | Three months ended January 31, | |
|--|--------------------------------|------------------------|
| | 2010 | 2009 (Restated) |
| Revenues: | | |
| Total segment revenues | \$ 36,664,483 | \$ 41,336,031 |
| Elimination of intersegment revenue | (4,277,237) | (4,445,018) |
| Consolidated revenue | \$ 32,387,246 | \$ 36,891,013 |
| Operating Income: | | |
| Total segment operating income | \$ 889,601 | \$ 2,154 |
| Interest income | - | 2,724 |
| Interest expense | (1,569,812) | (1,099,333) |
| Other income | 304,581 | 24,112 |
| Consolidated (loss) before income taxes | \$ (375,630) | \$ (1,070,343) |
| Identifiable assets: | | |
| Total segment identifiable assets | \$ 86,408,270 | \$ 133,726,731 |
| Assets not allocated to a segment | 11,537,289 | 2,869,266 |
| Total consolidated assets | \$ 97,945,559 | \$ 136,595,997 |

8. Derivative Instruments and Hedging Activities

The Company manages exposure to changes in market interest rates. The Company's use of derivative instruments is limited to highly effective fixed and floating interest rate swap agreements used to manage well-defined interest rate risk exposures. The Company monitors its positions and the credit ratings of its counterparties and does not anticipate non-performance by the counterparties. Interest rate swap agreements are not entered into for trading purposes.

At September 28, 2007, the Company was party to an interest rate swap agreement which terminates on October 29, 2010. The swap agreement is with a major financial institution and aggregates \$25 million in notional principal amount representing approximately \$20.6 million and \$21.1 million of outstanding notional principal at January 31, 2010 and October 31, 2009. This swap agreement effectively converted \$25 million of variable interest rate debt to fixed rate debt. The swap agreement requires the Company to make fixed interest payments based on an average effective rate of 4.78% and receive variable interest payments from its counterparties based on one-month LIBOR (actual rate of 0.23% at January 31, 2010). The remaining term of this swap agreement is approximately 9 months. In the three months ended January 31, 2009, the Company recorded a net change in the fair value of the fixed interest rate swap agreement in the amount of \$266,000, net of income tax as other comprehensive loss. In the three months

ended January 31, 2010 the Company recorded as a component of other income \$284,000, related to its hedging arrangement, or \$170,000 net of income tax. Due to the termination of LIBOR borrowing eligibility from the Administrative Agent the Company recorded a loss in 2009 from ineffectiveness in its hedging arrangement.

The fair value of this derivative instrument is discussed further in Footnote 9, Fair Value of Financial Instruments.

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

9. Fair Value of Financial Instruments

FASB ASC 820 (ASC 820) provides guidance for using fair value to measure assets and liabilities and only applies when other standards require or permit the fair value measurement of assets and liabilities. It does not expand the use of fair value measurements. The Company adopted ASC 820 for financial assets and liabilities only on November 1, 2008. The Company's interest rate swap derivative liability is based on third party valuation models, and is therefore classified as having Level 2 inputs. The adoption of ASC 820 for financial assets and financial liabilities did not have a material impact on the Company's results of operations, financial condition or liquidity. The full adoption of ASC 820 for nonfinancial assets and nonfinancial liabilities is also not expected to have a significant impact on the Company's results of operations, financial condition or liquidity.

FASB ASC 825 (ASC 825) permits entities to choose to measure at fair value many financial instruments and certain other items at fair value that are not currently required to be measured. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. ASC 825 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. The Company elected to not apply the provisions of ASC 825; therefore the adoption of ASC 825 did not affect our consolidated financial position, results of operations or cash flows.

The company measures and records in the accompanying consolidated financial statements certain liabilities at fair value on a recurring basis. ASC 820 establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and our own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 - Quoted market prices in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable; and

Level 3 - Unobservable inputs developed using estimates and assumptions developed by the company, which reflect those that a market participant would use.

The following table summarizes the financial instruments measured at fair value in the accompanying consolidated balance sheet as of January 31, 2010:

| | Fair Value Measurements as of January 31, 2010 | | | |
|--------------------|---|------------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Liabilities: | | | | |
| Interest rate swap | \$ - | \$ 678,814 | \$ - | \$ 678,814 |

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.

The Company identified approximately \$0.3 million or \$0.03 per share on a basic and diluted basis of non-cash deferred tax related adjustments for the first quarter of 2009. This adjustment was initially recorded in the fourth quarter of 2009 for the full year and therefore the interim periods for 2009 have been restated accordingly to reflect such adjustment. Accordingly, the Consolidated Financial statements for January 31, 2009 have been restated to increase deferred income tax expense and to increase deferred income tax liability. This adjustment is related to the goodwill, trade name and masthead associated with the acquisition of The Herald-Dispatch. This deferred tax liability will remain on the balance sheet until such time as the associated intangible assets are impaired, sold, or otherwise disposed of. Certain prior-year amounts have been reclassified to conform to the current year financial statement presentation.

Three Months Ended January 31

(\$ In thousands)

| | 2010 | | 2009 (Restated) | |
|---|-----------|--------|-----------------|--------|
| Revenues: | | | | |
| Printing | \$ 19,749 | 61.0% | \$ 23,141 | 62.7% |
| Office products and office furniture | 8,262 | 25.5 | 9,237 | 25.1 |
| Newspaper | 4,376 | 13.5 | 4,513 | 12.2 |
| Total revenues | 32,387 | 100.00 | 36,891 | 100.00 |
| Cost of sales and newspaper operating costs: | | | | |
| Printing | 14,721 | 45.4 | 17,975 | 48.7 |
| Office products and office furniture | 5,931 | 18.3 | 6,697 | 18.2 |
| Newspaper cost of sales and operating costs | 2,129 | 6.6 | 2,440 | 6.6 |
| Total cost of sales and newspaper operating costs | 22,781 | 70.3 | 27,112 | 73.5 |
| Gross profit | 9,606 | 29.7 | 9,779 | 26.5 |
| Selling, general and administrative expenses | 8,717 | 26.9 | 9,777 | 26.5 |
| Income from operations | 889 | 2.8 | 2 | 0.0 |
| Interest income | - | 0.0 | 3 | 0.0 |
| Interest expense | (1,570) | (4.9) | (1,099) | (3.0) |
| Other income | 305 | 0.9 | 24 | 0.1 |
| (Loss) before taxes | (376) | (1.2) | (1,070) | (2.9) |
| Income tax benefit | 163 | 0.5 | 436 | 1.2 |
| Net (loss) | \$ (213) | (0.7)% | \$ (634) | (1.7)% |

Champion Industries, Inc. and Subsidiaries

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

Three Months Ended January 31, 2010 Compared to Three Months Ended January 31, 2009 (Restated)

Revenues

Total revenues decreased 12.2% in the first quarter of 2010 compared to the same period in 2009 to \$32.4 million from \$36.9 million. Printing revenue decreased 14.7% in the first quarter of 2010 to \$19.7 million from \$23.1 million in the first quarter of 2009. Office products and office furniture revenue decreased 10.6% in the first quarter of 2010 to \$8.3 million from \$9.2 million in the first quarter of 2009. The decrease in printing sales was due to the continued impact of the global economic crisis. The decrease in office products and office furniture sales was due to weaker sales in both office products and office furniture sales. The Company recorded newspaper revenues associated with the acquisition of The Herald-Dispatch of approximately \$4.4 million consisting of advertising revenue of approximately \$3.4 million and \$1.0 million in circulation revenues for the first quarter of 2010. This compares to newspaper revenues of approximately \$4.5 million consisting of advertising revenue of approximately \$3.5 million and \$1.0 million in circulation revenues for the first quarter of 2009.

Cost of Sales

Total cost of sales decreased 16.0% in the first quarter of 2010 to \$22.8 million from \$27.1 million in the first quarter of 2009. Printing cost of sales in the first quarter of 2010 decreased \$3.3 million over the prior year and decreased as a percent of printing sales from 77.7% in 2009 to 74.5% in 2010. The decrease in printing cost of sales as a percentage of printing sales is primarily related to lower material costs as a percent of printing sales. Office products and office furniture cost of sales decreased in 2010 from 2009 levels and decreased as a percent of sales from 72.5% in 2009 to 71.8% in 2010. Newspaper cost of sales and operating costs as a percent of newspaper sales were 48.6% for the three months ended January 31, 2010 compared with 54.1% for the three months ended January 31, 2009.

Operating Expenses

In the first quarter of 2010, selling, general and administrative expenses (S,G&A) decreased on a gross dollar basis to \$8.7 million from \$9.8 million in 2009, a decrease of \$1.1 million. As a percentage of total sales, the expenses increased on a quarter to quarter basis in 2010 to 26.9% from 26.5% in 2009. The increase in S,G&A as a percent of sales was primarily reflective of lower sales partially offset by a decrease in S,G&A on a gross dollar basis.

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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 first quarter of 2010 to \$0.9 million from \$2,000 in the first quarter of 2009. This increase is the result of improved operating results from each of the Company's business segments.

Other expenses (net), increased approximately \$0.2 million from 2009 to 2010 primarily due to increases in interest expense, resulting from higher rates associated with the Administrative Agent instituting the default rate and eliminating the LIBOR borrowing expense. This increase was partially offset by an increase in other income resulting from a hedging arrangement.

Income Taxes

The Company's effective income tax benefit was a benefit of 43.4% in the first quarter of 2010 and a benefit of 40.7% for the first quarter of 2009. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate. This rate is also reflective of multi-state apportionment factors and certain federal and state adjustments in the first quarter of 2010 for fiscal 2009 reflective of estimate modifications of various apportionate factors and a tax credit.

Net (Loss)

Net loss for the first quarter of 2010 was (\$213,000) compared to a net loss of (\$634,000) in the first quarter of 2009. Basic and diluted (loss) per share for the three months ended January 31, 2010 and 2009 were (\$0.02) and (\$0.06).

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.

The United States economy has been in a recession since December 2007, according to the National Bureau of Economic Research, and it is widely believed that certain elements of the economy, such as housing, were in decline before that time. The duration and depth of an economic recession in markets in which the Company operates may further reduce its future advertising and circulation revenue, printing revenue, office products revenue and office furniture revenue operating results and cash flows.

Seasonality

Our business is subject to seasonal fluctuations that we expect to continue to be reflected in our operating results in future periods. 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 increased orders for printing of corporate annual reports and proxy statements. A post-Labor Day increase in demand for printing services and office products coincides with the Company's fourth quarter.

On a historical basis The Herald-Dispatch's first and third calendar quarters of the year tended to be the weakest because advertising volume is at its lowest levels following the holiday season and a seasonal slowdown in the

summer months. Correspondingly, on a historical basis the fourth calendar quarter followed by the second calendar quarter tended to be the strongest quarters. The fourth calendar quarter included heavy holiday season advertising. Other factors that affect our quarterly revenues and operating results may be beyond our control, including changes in the pricing policies of our competitors, the hiring and retention of key personnel, wage and cost pressures, distribution costs, changes in newsprint prices and general economic factors.

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Champion Industries, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition
and Results of Operations (continued)

Liquidity and Capital Resources

Net cash provided by operations for the three months ended January 31, 2010, was \$3.0 million compared to net cash provided by operations of \$4.1 million during the same period in 2009. This change in net cash from operations is due primarily to timing changes in assets and liabilities.

Net cash used in investing activities for the three months ended January 31, 2010 was \$97,000 compared to \$0.5 million during the same period in 2009. The net cash used in investing activities during the first three months of 2010 and 2009 primarily related to the purchase of equipment and vehicles.

Net cash used in financing activities for the three months ended January 31, 2010 was \$4.1 million compared to \$3.5 million during the same period in 2009. This increase is primarily due to higher principal payments on indebtedness related to the terms of the Forbearance Agreement.

Working capital on January 31, 2010 was (\$38.3) million and at October 31, 2009 was (\$42.6) million. The working capital deficit is a result of the classification as a current liability at January 31, 2010 and October 31, 2009 of \$52.8 million and \$60.5 million of debt which was long-term prior to the Company's violation of certain financial covenants. This debt was reclassified due to the Company's inability to remain in compliance with certain of its financial covenants.

On December 29, 2009, the Administrative Agent and Lenders under the Company's Credit Agreement dated September 14, 2007 ("Credit Agreement"), the Company and Marshall T. Reynolds entered into a Forbearance Agreement (the "Forbearance Agreement") which provides, among other things, that during a standstill period commencing on December 29, 2009 and ending on March 31, 2010 (unless sooner terminated by default of Champion under the Forbearance Agreement or the Credit Agreement), the Required Lenders are willing to temporarily forbear exercising certain rights and remedies available to them, including acceleration of the obligations or enforcement of any of the liens provided for in the Credit Agreement. The Company acknowledged in the Forbearance Agreement that as a result of the existing defaults, the Lenders are entitled to decline to provide further credit to the Company, to terminate their loan commitments, to accelerate the outstanding loans, and to enforce their liens.

The Company has been working with the different creditors to restructure the existing debt; however, an agreement satisfactory to the Company has not been reached. Upon the expiration of the Forbearance Agreement, a total of \$57,692,938 of long-term debt and outstanding revolving line of credit borrowing are subject to accelerated maturity and, as such, the creditors may, at their option, give notice to the Company that amounts owed are immediately due and payable. As a result, the full amount of the related long-term debt has been classified as a current liability in the accompanying Balance Sheet at January 31, 2010 and October 31, 2009 representing \$52,792,938 and \$60,457,938. Regardless of the non-compliance with financial covenants, the Company has made every scheduled payment of principal and interest, including an excess cash flow recapture payment of approximately \$2.0 million in January 2009 and pursuant to the terms and of the Forbearance Agreement a payment of \$7.0 million in term loans in December 2009.

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, 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 4T. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls were effective as of the end of the period covered by this quarterly report.

(b) Changes in Internal Controls. There have been no changes in our internal controls over financial reporting that occurred during the first three months of fiscal year 2010 that have materially affected, or are reasonably likely to materially affect, our 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, 2009.

Item 6. Exhibits

a) Exhibits:

- | | | |
|--------|--|--------------------------------------|
| (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: March 12, 2010

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

Date: March 12, 2010

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

Date: March 12, 2010

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