CHAMPION INDUSTRIES INC
Form 10-Q
June 13, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

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

For the quarterly period ended April 30, 2014

OR

o 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. 000-21084

Champion Industries, Inc.
(Exact name of Registrant as specified in its charter)

West Virginia	55-0717455
(State or other jurisdiction of incorporation or organization)	(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 ü 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 ü No _____.

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 o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ
		(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 ü .

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

Class	Outstanding at April 30, 2014
Common stock, $1.00 par value per share	11,299,528 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	April 30, 2014 (Unaudited)	October 31, 2013
Current assets:		
Cash and cash equivalents	$335,076	$1,428,542
Accounts receivable, net of allowance of $906,000 and $973,000	9,614,965	9,612,826
Inventories	4,612,410	4,884,579
Other current assets	338,161	423,441
Current portion assets held for sale/discontinued operations (see Note 11)	315,275	493,304
Total current assets	15,215,887	16,842,692
Property and equipment, at cost:		
Land	1,254,195	1,254,195
Buildings and improvements	4,807,204	4,988,229
Machinery and equipment	34,363,487	34,334,909
Equipment under capital lease	72,528	72,528
Furniture and fixtures	3,672,093	3,654,353
Vehicles	2,495,245	2,526,038
	46,664,752	46,830,252
Less accumulated depreciation	(39,591,603)	(38,961,412)
	7,073,149	7,868,840
Goodwill	1,230,485	1,230,485
Deferred financing costs	140,645	218,824
Other intangibles, net of accumulated amortization	1,240,991	1,308,249
Other assets	59,810	61,532
	2,671,931	2,819,090
Total assets	$ 24,960,967	$ 27,530,622

See notes to consolidated financial statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	April 30, 2014 (Unaudited)	October 31, 2013
Current liabilities:		
Accounts payable	$5,670,660	$6,925,532
Accrued payroll and commissions	562,415	767,638
Taxes accrued and withheld	722,187	745,658
Accrued expenses	1,667,254	1,785,035
Current portion liabilities held for sale/discontinued operations (see Note 5 and Note 11)	315,275	315
Debt discount (see Note 5)	(306,833)	-
Notes payable - related party (see Note 5)	2,500,000	-
Notes payable (see Note 5)	10,181,430	902,565
Capital lease obligations (see Note 5)	14,491	13,817
Total current liabilities	21,326,879	11,140,560
Long-term debt, net of current portion:		
Notes payable (see Note 5)	139,788	9,494,727
Notes payable - related party (see Note 5)	-	2,500,000
Debt discount (see Note 5)	-	(477,387)
Capital lease obligations (see Note 5)	35,958	42,563
Long-term portion liabilities held for sale/discontinued operations (see Note 5 and Note 11)	-	492,989
Other liabilities	-	150
Total liabilities	21,502,625	23,193,602
Shareholders' equity:		
Common stock, $1 par value, 20,000,000 Class A voting shares authorized; 11,299,528 shares issued and outstanding	11,299,528	11,299,528
Additional paid-in capital	24,279,179	24,279,179
Retained deficit	(32,120,365)	(31,241,687)
Total shareholders' equity	3,458,342	4,337,020
Total liabilities and shareholders' equity	$24,960,967	$27,530,622

See notes to consolidated financial statements.

Champion Industries, Inc. and Subsidiaries
Consolidated Statements of Operations

	Three Months Ended April 30,		Six Months Ended April 30,	
	2014	2013	2014	2013
Revenues:				
Printing	$ 9,667,563	$ 11,018,697	$ 19,026,172	$ 22,120,177
Office products and office furniture	5,364,717	7,024,572	11,428,807	14,233,591
Total revenues	15,032,280	18,043,269	30,454,979	36,353,768
Cost of sales:				
Printing	7,151,120	7,955,620	14,377,730	16,196,186
Office products and office furniture	3,974,004	4,806,359	8,409,771	9,750,305
Total cost of sales	11,125,124	12,761,979	22,787,501	25,946,491
Gross profit	3,907,156	5,281,290	7,667,478	10,407,277
Selling, general and administrative expenses	4,085,604	4,622,087	8,206,078	9,764,409
Goodwill impairments	-	-	-	2,226,837
(Loss) income from operations	(178,448)	659,203	(538,600)	(1,583,969)
Other income (expenses):				
Interest expense - related party	(20,087)	(20,087)	(40,851)	(40,851)
Interest expense	(256,604)	(1,285,710)	(520,365)	(2,600,776)
Other	206,644	11,370	221,138	20,993
	(70,047)	(1,294,427)	(340,078)	(2,620,634)
(Loss) from continuing operations before income taxes	(248,495)	(635,224)	(878,678)	(4,204,603)
Income tax expense	-	(60,765)	-	(37,242)
Net (loss) from continuing operations	(248,495)	(695,989)	(878,678)	(4,241,845)
Net (loss) from discontinued operations	-	(128,627)	-	(124,649)
Net (loss)	$ (248,495)	$ (824,616)	$ (878,678)	$ (4,366,494)
(Loss) per share				
Basic and diluted (loss) from continuing operations	$ (0.02)	$ (0.06)	$ (0.08)	$ (0.38)
Basic and diluted (loss) from discontinued operations	-	(0.01)	-	(0.01)
Total (loss) per common share	$ (0.02)	$ (0.07)	$ (0.08)	$ (0.39)
Weighted average shares outstanding:				
Basic	11,300,000	11,300,000	11,300,000	11,300,000
Diluted	11,300,000	11,300,000	11,300,000	11,300,000

See notes to consolidated financial statements.

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Champion Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Six Months Ended April 30, 2014	2013
Cash flows from operating activities:		
Net (loss)	$(878,678)	$ (4,366,494)
Net (loss) from discontinued operations	-	(124,649)
Net (loss) from continuing operations	(878,678)	(4,241,845)
Adjustments to reconcile net (loss) from continuing operations to cash (used in) provided by operating activities:		
Depreciation and amortization	1,034,296	1,093,933
(Gain) on sale of assets	(214,551)	(20,253)
Allowance for doubtful accounts	35,594	(87,477)
Deferred financing costs / debt discount	259,097	1,209,091
Accrued deferred fee	-	533,311
Goodwill impairment	-	2,226,837
Changes in assets and liabilities:		
Accounts receivable	(37,732)	1,250,059
Inventories	272,169	748,400
Other current assets	85,280	(245,626)
Accounts payable	(1,254,871)	2,476,196
Accrued payroll and commissions	(205,223)	(380,049)
Taxes accrued and withheld	(23,471)	39,611
Accrued expenses	(117,781)	(372,484)
Other liabilities	(150)	(900)
Net cash (used in) provided by operating activities continuing operations	(1,046,021)	4,228,804
Net cash provided by operating activities discontinued operations	66,047	253,514
	(979,974)	4,482,318

See notes to consolidated financial statements.

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

	Six Months Ended April 30,	
	2014	2013
Cash flows from investing activities:		
Purchase of property and equipment	(299,959)	(290,065)
Proceeds from sale of fixed assets	454,829	70,748
Proceeds from assets held for sale	-	816,667
Other assets	(8,643)	754
Net cash provided by investing activities continuing operations	146,227	598,104
Net cash provided by investing activities discontinued operations	-	399,868
	146,227	997,972
Cash flows from financing activities:		
Borrowings of notes payable	-	400,000
Proceeds from term debt	254,882	79,087
Principal payments on term debt	(514,601)	(4,850,092)
Net cash (used in) financing activities continuing operations	(259,719)	(4,371,005)
Net cash (used in) financing activities discontinued operations	-	(408,333)
	(259,719)	(4,779,338)
Net (decrease) increase in cash and cash equivalents	(1,093,466)	700,952
Cash and cash equivalents at beginning of period	1,428,542	1,844,797
Cash and cash equivalents at end of period	$335,076	$ 2,545,749

See notes to consolidated financial statements.

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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, 2013, and related notes thereto contained in Champion Industries, Inc.’s Form 10-K filed January 29, 2014. 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, 2013 was derived from our audited financial statements.

Reclassifications and Revisions: Certain prior-year amounts have been reclassified to conform to the current year financial statement presentation. The Company's operations comprising its former Donihe Graphics division, Blue Ridge Printing division and the Herald-Dispatch Newspaper segment were classified as discontinued operations in the consolidated statements of operations for all periods presented. See Note 11 for information on discontinued operations.

Newly Issued Accounting Standards

Effective July 1, 2009, changes to the ASC are communicated through an ASU. As of April 30, 2014, the FASB has issued ASU’s 2009-01 through 2014-08. The Company reviewed each ASU and determined that they will not have a material impact on the Company’s financial position, results of operations or cash flows, other than related disclosures to the extent applicable.

In April 2014, the FASB issued ASU 2014-08, “Presentation of Financial Statements: Topic 205 and Property, Plant and Equipment: Topic 360 – Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (“ASU 2014-08”). ASU 2014-08 improves the definition of discontinued operations by limiting the discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have or will have a major effect on an entity’s operations and financial results, will require expanded disclosures for discontinued operations, and will require disclosure of the pretax profit or loss of an individually significant component of an entity that does not qualify for discontinued operations reporting. The Company will adopt ASU 2014-08 in reporting periods beginning after December 15, 2014. ASU 2014-08 will expand the disclosures of the Company’s discontinued operations. The Company does not expect a material impact on the financial position, results of operation, or cash flows.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers: Topic 606” (“ASU 2014-09”). ASU 2014-09 will enhance comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, reduce the number of requirements which must be considered in recognizing revenue, improve disclosure to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized, and provide guidance for transactions that are not currently addressed comprehensively. The Company will adopt ASU 2014-09 in reporting periods beginning after December 15, 2016. The Company does not expect a material impact on the financial position, results of operation, or cash flows.

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

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 and warrants. 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 and warrants using the treasury stock method. There was no dilutive effect for the three and six months ended April 30, 2014 and 2013.

3. Accounts Receivable, Allowance for Doubtful Accounts and Revenue Recognition

Accounts Receivable: Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 30 days from the invoice date. The Company encounters risks associated with sales and the collection of the associated accounts receivable. As such, the Company records a monthly provision for accounts receivable that are considered to be uncollectible and performs a comprehensive assessment periodically utilizing a variety of historical information and specific account review. The allowance for doubtful accounts is assessed periodically based on events that may change the rate such as a significant increase or decrease in collection performance and timing of payments as well as the calculated total exposure in relation to the allowance. Periodically, the Company compares the identified credit risks with the allowance that has been established using historical experience and adjusts the allowance accordingly.

Revenue Recognition: Revenues are recognized when products are shipped or ownership is transferred and when services are rendered to customers. The Company acts as a principal party in sales transactions, assumes title to products and assumes the risks and rewards of ownership including risk of loss for collection, delivery or returns. The Company typically recognizes revenue for the majority of its products upon shipment to the customer and transfer of title. Under agreements with certain customers, custom forms may be stored by the Company for future delivery. In these situations, the Company may receive a logistics and warehouse management fee for the services provided. In these cases, delivery and bill schedules are outlined with the customer and product revenue is recognized when manufacturing is complete and the product is received into the warehouse, title transfers to the customer, the order is invoiced and there is reasonable assurance of collectability. Since the majority of products are customized, product returns are not significant. Therefore, the Company records sales on a gross basis. Advertising revenues are recognized, net of agency commissions, in the period when advertising is printed or placed on websites for the former newspaper segment (reflected as discontinued operations). Circulation revenues are recognized when purchased newspapers are distributed (reflected as discontinued operations). Revenue generally is recognized net of any taxes collected from customers and subsequently remitted to government authorities.

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited) (continued)

4. 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 at certain divisions.

Inventories consisted of the following:

	April 30, 2014	October 31, 2013
Printing:		
Raw materials	$ 1,187,380	$ 1,375,675
Work in process	757,446	756,861
Finished goods	1,217,457	1,218,233
Office products and office furniture	1,450,127	1,533,810
	$ 4,612,410	$ 4,884,579

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

5. Debt

Debt consisted of the following:

	April 30, 2014	October 31, 2013
Term Note A dated October 7, 2013, due in monthly installments of $50,000 plus interest payments equal to the prime rate of interest plus 2% maturing April 1, 2015, collateralized by substantially all of the assets of the Company.	$ 10,150,000	$ 10,450,000
Installment notes payable to banks and Lessor, due in monthly installments plus interest at rates approximating the bank's prime rate or the prime rate subject to various floors maturing in various periods ranging from March 2014-February 2016, collateralized by equipment and vehicles.	486,493	440,281
Notes payable to shareholders. The shareholder note of $2.5 million plus all accrued interest was initially due in one balloon payment in September 2014 pursuant to Term Note A maturity adjusted to April 2015. Interest is equal to the prime rate.	2,500,000	2,500,000
Capital lease obligation for printing equipment at an imputed interest rate of 6.02% per annum	50,449	56,380
Unamortized debt discount	(306,833)	(477,387)
	12,880,109	12,969,274
Less current portion long-term debt	12,689,872	902,565
Less current portion obligation under capital lease	14,491	13,817
Long-term debt, net of current portion and capital lease obligation	$ 175,746	$ 12,052,892
Continuing operations:		
Long-term debt, net of current portion	$ 139,788	$ 9,494,727
Long-term capital lease obligation	35,958	42,563
Current portion of long-term debt	12,681,430	902,565
Long-term notes payable to related party	-	2,500,000
Current portion of capital lease obligation	14,491	13,817
Debt discount	(306,833)	(477,387)
Total debt from continuing operations	12,564,834	12,476,285
Liabilities held for sale/discontinued operations - debt (see Note 11)	315,275	492,989
Total indebtedness	$ 12,880,109	$ 12,969,274

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

The Company has determined in accordance with applicable provisions of GAAP that indebtedness that is required to be repaid as a result of a disposal transaction should be allocated to discontinued operations. The specific allocation of sale proceeds would typically be allocated at the discretion of the Administrative Agent for the Company's Previous Secured Lenders between the revolving credit facility and term debt. The proceeds from assets held for sale are required to be remitted to the Administrative Agent for the extinguishment of debt. Therefore, the debt allocated to liabilities held for sale/discontinued operations reflects actual or estimated debt pay downs based on either proceeds received or the carrying amount of the related assets held for sale, net of associated liabilities held for sale prior to debt allocated to liabilities held for sale/discontinued operations. The Company utilized estimated, or if available, actual debt payments required to be made associated with the held for sale/discontinued operations classification. The prior period amounts were equivalent to the allocations or payments in the applicable period.

Maturities of indebtedness and capital lease obligations from continuing and discontinued operations for each of the next five years beginning May 1, 2014:

2014	$ 12,704,363
2015	155,173
2016	16,334
2017	4,239
2018	-
	$ 12,880,109

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

Debt 2014:

The Company is currently operating under the provisions of the Third Amended and Restated Credit Agreement (the “October 2013 Credit Agreement”) as further discussed herein.

Debt 2013:

Effective October 7, 2013 the Company began operating under an October 2013 Credit Agreement as further discussed herein. The following is a sequential summary of the various debt actions in 2013:

The Company operated under the provisions of the Restated Credit Agreement until the event of default notice received on March 25, 2013. Since that date the Company operated under an event of default pursuant to two default notifications defined herein.

The Company received a notice of default on March 25, 2013 in a letter dated March 22, 2013, which was reported pursuant to item 2.04 of Form 8-K filed March 26, 2013. This notice of default advised that the Administrative Agent had not waived any event of default and the Lender Parties expressly reserve all rights and remedies available to them under the Restated Credit Agreement.

The Company received a notice of default on April 30, 2013 in a letter dated April 25, 2013, which was reported pursuant to item 2.04 of Form 8-K filed May 3, 2013. This notice of default advised that the Administrative Agent had not waived any event of default and the Lender Parties expressly reserved all rights and remedies available to them under the Restated Credit Agreement.

The Notices of Default and Reservation of Rights specifically advised that Events of Default had occurred and continued to exist for the Company under Section 7.1(b) of the Credit Agreement by reason of: (a) Borrower's noncompliance with the minimum EBITDA covenant, set forth in Section 6.20(d) of the Credit Agreement, for the Test Periods ended February 28 and March 31, 2013 and for the Notices of Default filed May 3, 2013 (b) the Company's failure to perform the covenant set forth in Section 6.31(d) of the Credit Agreement (failure to complete, no later than March 31, 2013, the Designated Transaction).

On May 31, 2013, the Administrative Agent, the Lenders, all of its subsidiaries and Marshall T. Reynolds entered into the May 2013 Forbearance Agreement which provided, among other things, that during a forbearance period commencing on May 31, 2013, and ending on September 30, 2013 (unless terminated sooner by default of the Company under the May 2013 Forbearance Agreement), the Lenders were 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 Restated Credit Agreement. The Company acknowledged in the May 2013 Forbearance Agreement that as a result of the existing defaults, the Lenders were 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 May 2013 Forbearance Agreement provided that during the forbearance period, so long as the Company met the conditions of the May 2013 Forbearance Agreement, it could continue to request credit under the revolving credit line.

The May 2013 Forbearance Agreement required the Company to:

(a) Enter into various Designated Transactions referred to as Designated Transaction No. 1 and Designated Transaction No. 2 pursuant to applicable approvals from secured lenders regarding pricing or other actions, including letters of intent no later than June 14, 2013 setting forth the terms and conditions for Designated Transaction No. 1 that shall be satisfactory to the Required Lenders. The Company was also required to use its reasonable best efforts to enter into a letter of intent, no later than June 7, 2013, for Designated Transaction No. 2. There were also various targeted dates upon acceptance of applicable letters of intent for Designated Transactions which would result in various actions to be achieved by the applicable milestone dates or if not achieved might be considered an event of default.

(b) Acknowledge in a writing, satisfactory to the Required Lenders, that approval of the Company's shareholders shall not be required for Designated Transaction No. 1, whether considered separately or together with Designated Transaction No. 2.

(c) The Company was subject to a minimum EBITDA covenant commencing with the month ended June 30, 2013 based on a buildup starting April 1, 2013 of $1,378,394 at June 30, 2013, $2,198,509 at July 31, 2013 and $2,506,722 at August 31, 2013

(d) Continued retention of Timothy D. Boates, RAS Management Advisors, LLC as its Chief Restructuring Officer who shall continue to be subject to the sole authority, direction and control of the Company's Board of Directors and to report directly to the Board.

(e) Expenditure limitations as defined in CRO report and under direct control of the CRO.

(f) The requirement of a general reserve of $1,000,000 in the definition of "Borrowing Base" in the Restated Credit Agreement shall be waived for the duration of the Forbearance Period.

(g) Removal of requirement to maintain $750,000 concentration account minimum balances.

(h) Temporary Overadvance on the borrowing base in an amount not to exceed $1,200,000 subject to the aggregate revolving credit commitment limit of $10,000,000. Overadvance shall be repaid upon receipt of project receivables and such repayment shall be a permanent reduction in the Temporary Overadvance. Such Overadvance shall be repaid in full upon the earliest Designated Transaction No.1 or Designated Transaction No.2 or September 30, 2013.

(i) Excess availability of $500,000.

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

On August 28, 2013, the Administrative Agent, the Lenders, all of its subsidiaries and Marshall T. Reynolds entered into a First Limited Forbearance and Waiver Agreement and Second Amendment to Amended and Restated Credit Agreement ("August 2013 Forbearance Amendment"). This Agreement decreased the Revolving Credit Commitments from $10,000,000 in the aggregate to $8,000,000 in the aggregate, modified certain financial covenants and provided the consent to the sale of certain assets.

The Company, various Company subsidiaries, as Guarantors, Marshall T. Reynolds, as shareholder and Big 4 Investments, LLC ("Administrative Agent and Lender") as Lender and Administrative Agent entered into a Third Amended and Restated Credit Agreement dated October 7, 2013. Administrative Agent and Lender purchased the Company's outstanding syndicated debt from Fifth Third Bank and the other Lenders ("Previous Secured Lenders") for a price of $10.0 million. The Administrative Agent and Lender then simultaneously entered into the October 2013 Credit Agreement with the Company pursuant to the provisions of Term Note A for $10.0 million and related Guaranty Agreement and Stock Pledge and Security Agreement all dated October 7, 2013. The indebtedness immediately prior to the note sale reflected a balance pursuant to the Loan Purchase Agreement between Administrative Agent and Lender and the Previous Secured Lenders of approximately $19.9 million representing Term Loan A, Term Loan B and Revolving Loans plus accrued deferred fee and accrued interest of approximately $1.2 million.

The October 2013 Credit Agreement and related Term Note A, Guaranty Agreement and Stock Pledge and Security Agreement as further described herein amended various provisions of the Restated Credit Agreement dated October 19, 2012, including but not limited to:

- October 2013 Credit Agreement maturity of April 1, 2015.
- Existing debt restructured from Term Loan A, Term Loan B, and Revolving Credit Facility to Term Note A in the amount of $10,000,000.
- The Company's debt will not have a revolving credit facility component.
- Interest rate at the Wall Street Journal prime rate of interest plus two percent.
- Principal payments due monthly at $50,000 per month.
- $500,000 maturity or prepayment premium.
- Financial covenant of maximum capital expenditures of $3,000,000 during any fiscal year.
- Personal guaranty of Marshall T. Reynolds.
- Stock Pledge and Security Agreement providing a third party credit enhancement to support the credit facility underwritten by the Administrative Agent.
- In consideration for the personal Guaranty Agreement of Marshall T. Reynolds and Stock Pledge and Security Agreement, the warrants held by the Previous Secured Lenders were assigned to Marshall T. Reynolds. The warrants represent $0.001 per share warrants issued for up to 30% (on a post-exercise basis) of the outstanding common stock of the Company in the form of non-voting Class B common stock and associated Investor Rights Agreement.

The Company reviewed applicable GAAP and determined that extinguishment accounting should be applied in relation to the October 2013 Credit Agreement.

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

Other debt provisions:

The prime rate was the primary interest rate on the above loans prior to September 14, 2007. After this date, the primary interest rate consisted primarily of LIBOR 30-day, 60-day and 90-day rates plus the applicable margin (effective with the Second Amendment, the primary interest rate was LIBOR 30-day and 60-day rates plus the applicable margin) (after the Restated Credit Agreement effective date, the primary interest rate was LIBOR plus the applicable margin). Concurrent with the October 2013 Credit Agreement the prime rate plus the applicable margin is the primary interest rate on the Company's indebtedness. Prime rate approximated 3.25% at April 30, 2014 and 2013 while the 30-day LIBOR rate approximated 0.15% at April 30, 2013. The Company had accrued interest of approximately $181,000 and $142,000 at April 30, 2014 and October 31, 2013 recorded as accrued expenses on the balance sheet. Deferred financing costs and debt discount are amortized under the interest method over the life of the related credit facilities and are reported as part of interest expense. In 2014 and 2013, $259,000 and $1,209,000 of debt discount and/or deferred financing costs were included as interest expense. In addition, certain period costs associated with these credit facilities are recorded as a component of interest including administrative agent fees and costs. The Company amortized under the interest method the debt discount associated with the issuance of warrants as well as lender fees and other costs associated with the Restated Credit Agreement and is amortizing under the interest method the costs and maturity prepayment premium associated with the October 2013 Credit Agreement. Interest paid from total operations during the three and six months ended April 30, 2014 and 2013 approximated $122,000, $634,000, $260,000 and $1,300,000.

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

6. Income taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers a multitude of factors in assessing the utilization of its deferred tax assets including the reversal of deferred tax liabilities, projected future taxable income and other assessments, which may have an impact on financial results. The Company had determined that a full valuation allowance was warranted at October 31, 2013. The Company reassessed it's previous determination regarding its valuation allowance and determined that a full valuation allowance was warranted at April 30, 2014. The amount of deferred tax asset considered realizable could be adjusted in future periods based on a multitude of factors, including but not limited to a reassessment of our credit position, and such adjustments may be material to the Consolidated Financial Statements.

The Company’s effective tax rate for continuing operations for the three and six months ended April 30, 2014 was 0.0% and 0.0% compared to a tax expense of 9.6% and 0.9% for the three and six months ended April 30, 2013. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate and may be impacted by increases or decreases in the valuation allowance for deferred tax assets. The Company recorded a tax benefit from continuing operations in 2013 resulting from the application of certain provisions of ASC 740 regarding interim implications of intra-period tax allocations for discontinued operations when there is a loss from continuing operations to maintain financial statement neutrality and to recognize the tax components between continuing operations and discontinued operations on a discrete basis.

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

7. Commitments and Contingencies

The nature of The Company’s business results in a certain amount of claims, litigation, investigations, and other legal and administrative cases and proceedings, all of which are considered incidental to the normal conduct of business. When the Company determines it has meritorious defenses to the claims asserted, it vigorously defends itself. The Company will consider settlement of cases when, in Management’s judgment, it is in the best interests of both the Company and its shareholders to do so.

The Company periodically assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. The Company would accrue a loss on legal contingencies in the event the loss is deemed probable and reasonably estimable. The accrual is adjusted as appropriate to reflect any relevant developments regarding the legal contingency. In the event of a legal contingency where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established.

In certain cases, exposure to loss may exist in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes an estimate of the aggregate of reasonably possible losses, in excess of amounts accrued, for current legal proceedings not covered by insurance is not greater than $0.4 million at April 30, 2014 and may be substantially lower than this amount. Any estimate involves significant judgment, given the varying stages of the proceedings (including cases in preliminary stages), as well as numerous unresolved issues that may impact the outcome of a proceeding. Accordingly, Management’s estimate will change from time-to-time, and actual losses may be more or less than the current estimate. The current loss estimate excludes legal and professional fees associated with defending such proceedings. These fees are expensed as incurred and may be material to the Company's Consolidated Financial Statements in a particular period.

While the final outcome of legal proceedings is inherently uncertain, based on information currently available, advice of counsel, and available insurance coverage, Management believes that there is no accrual for legal contingencies required at this time. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be greater than the current range of estimates discussed above and may be material to the Company’s Consolidated Financial Statements in a particular period.

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

In accordance with the provisions of the Restated Credit Agreement, the Company issued $0.001 per share warrants issued for up to 30% (on a post-exercise basis) of the outstanding common stock of the Company in the form of non-voting Class B common stock and associated Investor Rights Agreement for the benefit of the Previous Secured Lenders under the Restated Credit Agreement. The warrants expire after October 19, 2017.

The Warrants entitle the Holders thereof to purchase that number of shares of Company Class B Common Stock equal to thirty percent (30%) of the then issued and outstanding Common Stock of the Company, on a fully diluted, post-exercise basis. Based on the 11,299,528 shares of Company Common Stock currently issued and outstanding, exercise in full of the Warrants would result in the Company's issuance of an additional 4,842,654 shares to the Warrant Holders. In the event a greater number of issued and outstanding common shares exist at the time of option exercise, a greater number of options of shares of Class B Common Stock would be issuable. The Previous Secured Lenders assigned the warrants to Marshall T. Reynolds in consideration for his personal guaranty and stock pledge and security agreement to assist in facilitating the consummation of the October 2013 Credit Agreement. The Previous Secured Lenders, as Warrant Holders, were subject to the ownership limitations of the Bank Holding Company Act of 1956, as amended and regulations promulgated thereunder (the "Bank Holding Company Act") which placed limitations on their ability to control other companies. The Previous Secured Lenders/Warrant Holders requested, and the Company agreed to create a non-voting class of Common Stock, to be designated as "Class B Common Stock". The Warrants constitute the right to purchase Class B Common Stock. The warrants are exercisable solely for shares of Class B Common Stock. However, because any Class B Common Stock issuable pursuant to the Warrants may be sold by the Warrant Holders to entities not subject to the Bank Holding Company Act, or because one or more Warrant Holders may be permitted to own a limited number of voting shares of Company Class A Common Stock, the articles of amendment provide that those shares of Class B Common Stock are convertible into shares of Class A Common Stock, and vice versa, without charge. Marshall T. Reynolds, as the current Warrant Holder is entitled to convert Class B Common Shares into shares of Class A Common Stock.

As of April 30, 2014 the Company had contractual obligations in the form of leases and debt as follows:

	Payments Due by Fiscal Year						
Contractual Obligations	2014	2015	2016	2017	2018	Residual	Total
Non-cancelable operating leases	$ 369,580	$ 363,596	$ 349,849	$ 289,939	$ 195,132	$ 90,088	$ 1,658,184
Term debt	515,098	10,103,695	17,700	-	-	-	10,636,493
Obligations under capital lease	7,137	14,931	15,852	12,529	-	-	50,449
Debt discount	-	(306,833)	-	-	-	-	(306,833)
Notes payable - related party	-	2,500,000	-	-	-	-	2,500,000
	$ 891,815	$ 12,675,389	$ 383,401	$ 302,468	$ 195,132	$ 90,088	$ 14,538,293

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

8. 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 Company reports segment information in a manner consistent with the way that our management, including our chief operating decision maker, the Company’s Chief Executive Officer, assesses performance and makes decisions regarding allocation of resources in accordance with the Segment Disclosures Topic of the ASC.

Our Financial Reporting systems present various data, which is used to operate and measure our operating performance. Our chief operating decision maker utilizes various measures of a segment’s profit or loss including historical internal reporting measures and reporting measures based on product lines with operating income (loss) as the key profitability measure within the segment. Product line reporting is the basis for the organization of our segments and is the most consistent measure used by the chief operating decision maker and conforms with the use of segment operating income or (loss) that is the most consistent with those used in measuring like amounts in the Consolidated Financial Statements.

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 assets are classified based on the primary functional segment category as reported on the internal balance sheets. Therefore the actual segment assets may not directly correspond with the segment operating (loss) income reported herein. The Company has certain assets classified as held for sale/discontinued operations representing $315,275 at April 30, 2014 and $12,200,585 at April 30, 2013. These assets were part of the printing and newspaper segments prior to the reclassification as assets held for sale/discontinued operations. The total assets reported on the Company's balance sheets as of April 30, 2014 and April 30, 2013 are $24,960,967 and $41,960,272. The identifiable assets reported below represent $24,645,692 and $29,759,687.

The table below presents information about reported segments for the three and six months ended April 30:

2014 Quarter 2	Printing	Office Products & Furniture	Total
Revenues from continuing operations	$ 10,166,681	$ 6,113,724	$ 16,280,405
Elimination of intersegment revenue	(499,118)	(749,007)	(1,248,125)
Consolidated revenues from continuing operations	$ 9,667,563	$ 5,364,717	$ 15,032,280
Operating income (loss) from continuing operations	61,636	(240,084)	(178,448)
Depreciation & amortization	486,863	26,361	513,224
Capital expenditures	158,240	12,085	170,325
Identifiable assets	17,109,632	7,536,060	24,645,692
Goodwill	-	1,230,485	1,230,485

2013 Quarter 2	Printing	Office Products & Furniture	Total

Revenues from continuing operations	$ 11,934,590	$ 8,493,759	$ 20,428,349
Elimination of intersegment revenue	(915,893)	(1,469,187)	(2,385,080)
Consolidated revenues from continuing operations	$ 11,018,697	$ 7,024,572	$ 18,043,269
Operating income from continuing operations	325,395	333,808	659,203
Depreciation & amortization	512,869	33,852	546,721
Capital expenditures	216,465	-	216,465
Identifiable assets	21,693,125	8,066,562	29,759,687
Goodwill	-	1,230,485	1,230,485

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

2014 Year to Date	Printing	Office Products & Furniture	Total
Revenues from continuing operations	$ 20,013,735	$ 13,003,762	$ 33,017,497
Elimination of intersegment revenue	(987,563)	(1,574,955)	(2,562,518)
Consolidated revenues from continuing operations	$ 19,026,172	$ 11,428,807	$ 30,454,979
Operating (loss) from continuing operations	(225,425)	(313,175)	(538,600)
Depreciation & amortization	981,575	52,721	1,034,296
Capital expenditures	282,219	17,740	299,959
Identifiable assets	17,109,632	7,536,060	24,645,692
Goodwill	-	1,230,485	1,230,485

2013 Year to Date	Printing	Office Products & Furniture	Total
Revenues from continuing operations	$ 23,924,102	$ 16,942,016	$ 40,866,118
Elimination of intersegment revenue	(1,803,925)	(2,708,425)	(4,512,350)
Consolidated revenues from continuing operations	$ 22,120,177	$ 14,233,591	$ 36,353,768
Operating (loss) income from continuing operations	(2,128,696)	544,727	(1,583,969)
Depreciation & amortization	1,026,230	67,703	1,093,933
Capital expenditures	288,582	1,483	290,065
Identifiable assets	21,693,125	8,066,562	29,759,687
Goodwill	-	1,230,485	1,230,485

A reconciliation of total segment revenue, assets and operating (loss) to consolidated (loss) before income taxes, for the three and six months ended April 30, 2014 and 2013 is as follows:

	Three months		Six months	
	2014	2013	2014	2013
Revenues:				
Total segment revenues from continuing operations	$ 16,280,405	$ 20,428,349	$ 33,017,497	$ 40,866,118
Elimination of intersegment revenue	(1,248,125)	(2,385,080)	(2,562,518)	(4,512,350)
Consolidated revenue from continuing operations	$ 15,032,280	$ 18,043,269	$ 30,454,979	$ 36,353,768
Operating (loss) from continuing operations:				
Total segment operating (loss) income from continuing operations	$ (178,448)	$ 659,203	$ (538,600)	$ (1,583,969)
Interest expense - related party	(20,087)	(20,087)	(40,851)	(40,851)
Interest expense	(256,604)	(1,285,710)	(520,365)	(2,600,776)
Other income	206,644	11,370	221,138	20,993
	$ (248,495)	$ (635,224)	$ (878,678)	$ (4,204,603)

Consolidated (loss) from continuing operations before income taxes				
Identifiable assets:				
Total segment identifiable assets	$ 24,645,692	$ 29,759,687	$ 24,645,692	$ 29,759,687
Assets not allocated to a segment	315,275	12,200,585	315,275	12,200,585
Total consolidated assets	$ 24,960,967	$ 41,960,272	$ 24,960,967	$ 41,960,272

9. Fair Value Measurements

There is 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 Company does not believe it is practicable to estimate the fair value of its variable interest-bearing debt and revolving credit facilities related to its primary credit facilities with a private lender and its subordinated debt to a related party due primarily to the fact that an active market for the Company’s debt does not exist.

The term debt not discussed herein had a carrying value of approximately $0.5 million and the Company believes carrying value approximates fair value for this debt based on recent market conditions, collateral support, recent borrowings and other factors.

Cash consists principally of cash on deposit with banks. The Company's cash deposits in excess of federally insured amounts are primarily maintained at a large well-known financial institution.

The carrying amounts of the Company's accounts receivable, accounts payable, accrued payrolls and commissions, taxes accrued and withheld and accrued expenses approximates fair value due to their short-term nature.

Goodwill and other intangible assets are measured on a non-recurring basis using Level 3 inputs. Goodwill is also subject to an annual impairment test. (see Note 10)

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

10. Acquired Intangible Assets and Goodwill

	April 30, 2014		October 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Non-compete agreement	$ 1,000,000	$ 1,000,000	$ 1,000,000	$ 1,000,000
Customer relationships	2,451,073	1,210,082	2,451,073	1,149,033
Other	564,946	564,946	564,946	558,737
	4,016,019	2,775,028	4,016,019	