

CHAMPION INDUSTRIES INC  
Form 10-Q  
March 11, 2011  
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, 2011

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 .

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

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 issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at January 31, 2011
Common stock, \$1.00 par value per share	9,987,913 shares

---

Champion Industries, Inc.

INDEX

	Page No.
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheets (Unaudited)	3
Consolidated Statements of Operations (Unaudited)	5
Consolidated Statements of Shareholders' Equity (Unaudited)	6
Consolidated Statements of Cash Flows (Unaudited)	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosure About Market Risk	20
Item 4. Controls and Procedures	20
Part II. Other Information	
Item 1A. Risk Factors	21
Item 6. Exhibits	21
Signatures	22

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

Champion Industries, Inc. and Subsidiaries  
Consolidated Balance Sheets

ASSETS	January 31, 2011 (Unaudited)	October 31, 2010 (Audited)
Current assets:		
Accounts receivable, net of allowance of \$1,099,000 and \$1,297,000	\$ 18,163,402	\$ 18,133,748
Inventories	9,288,266	9,690,333
Income tax refund	-	36,293
Other current assets	1,375,938	652,178
Deferred income tax assets	1,144,519	1,144,519
Total current assets	29,972,125	29,657,071
Property and equipment, at cost:		
Land	2,016,148	2,016,148
Buildings and improvements	11,860,349	11,843,376
Machinery and equipment	55,095,709	55,025,237
Furniture and fixtures	4,188,751	4,171,194
Vehicles	3,308,978	3,266,898
	76,469,935	76,322,853
Less accumulated depreciation	(54,731,538)	(53,949,280)
	21,738,397	22,373,573
Goodwill	15,332,283	15,332,283
Deferred financing costs	1,161,643	1,267,174
Other intangibles, net of accumulated amortization	5,085,082	5,195,361
Trademark and masthead	10,001,812	10,001,812
Deferred tax asset, net of current portion	8,370,151	8,370,151
Other assets	35,270	36,561
	39,986,241	40,203,342
Total assets	\$ 91,696,763	\$ 92,233,986

See notes to consolidated financial statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	January 31, 2011 (Unaudited)	October 31, 2010 (Audited)
Current liabilities:		
Negative book cash balances	\$ 2,202,315	\$ 1,013,713
Accounts payable	3,328,994	4,116,087
Deferred revenue	904,295	720,549
Accrued payroll and commissions	1,491,551	2,115,922
Taxes accrued and withheld	1,040,198	1,125,726
Accrued expenses	1,983,246	1,930,327
Accrued income taxes	29,612	-
Current portion of long-term debt:		
Notes payable	5,519,903	5,484,842
Total current liabilities	16,500,114	16,507,166
Long-term debt, net of current portion:		
Line of credit	11,101,742	10,425,496
Notes payable	40,594,312	41,873,500
Other liabilities	5,100	5,550
Total liabilities	68,201,268	68,811,712
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	(9,261,028)	(9,334,249)
Total shareholders' equity	23,495,495	23,422,274
Total liabilities and shareholders' equity	\$ 91,696,763	\$ 92,233,986

See notes to consolidated financial statements.

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

Champion Industries, Inc. and Subsidiaries

Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended January 31,	
	2011	2010
<b>Revenues:</b>		
Printing	\$ 19,558,178	\$ 19,749,471
Office products and office furniture	8,339,302	8,261,714
Newspaper	4,007,675	4,376,061
Total revenues	31,905,155	32,387,246
<b>Cost of sales and newspaper operating costs:</b>		
Printing	15,120,842	14,721,374
Office products and office furniture	6,099,486	5,931,021
Newspaper cost of sales and operating costs	2,175,222	2,128,606
Total cost of sales and newspaper operating costs	23,395,550	22,781,001
Gross profit	8,509,605	9,606,245
Selling, general and administrative expenses	7,216,662	8,716,644
Restructuring charges	220,658	-
Income from operations	1,072,285	889,601
<b>Other income (expenses):</b>		
Interest expense	(968,822)	(1,569,812)
Other	16,681	304,581
	(952,141)	(1,265,231)
Income (loss) before income taxes	120,144	(375,630)
Income tax (expense) benefit	(46,923)	162,944
Net income (loss)	\$ 73,221	\$ (212,686)
<b>Income (loss) per share</b>		
Basic	\$ 0.01	\$ (0.02)
Diluted	\$ 0.01	\$ (0.02)
<b>Weighted average shares outstanding:</b>		
Basic	9,988,000	9,988,000
Diluted	9,988,000	9,988,000
Dividends per share	\$ -	\$ -

See notes to consolidated financial statements.

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

	Common Stock		Additional	Retained	Other	Total
	Shares	Amount	Paid-In Capital	Deficit	Comprehensive Loss	
Balance, October 31, 2010	9,987,913	\$ 9,987,913	\$ 22,768,610	\$ (9,334,249)	\$ -	\$ 23,422,274
Comprehensive income:						
Net Income	-	-	-	73,221	-	73,221
Total comprehensive income	-	-	-	73,221	-	73,221
Balance, January 31, 2011	9,987,913	\$ 9,987,913	\$ 22,768,610	\$ (9,261,028)	\$ -	\$ 23,495,495

See notes to consolidated financial statements.

## Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

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

Three Months Ended January 31,  
2011                      2010

Cash flows from operating activities:			
Net income (loss)	\$	73,221	\$ (212,686)
Adjustments to reconcile net income (loss) to cash (used in) provided by operating activities:			
Depreciation and amortization		1,010,330	1,217,641
(Gain) on sale of assets		(2,459)	(1,075)
Deferred income taxes		-	455,333
Deferred financing costs		105,530	77,368
Bad debt expense		21,497	102,966
Restructuring charges		249,509	-
(Gain) on hedging agreements		-	(284,079)
Changes in assets and liabilities:			
Accounts receivable		(51,150)	629,633
Inventories		402,067	581,920
Other current assets		(723,760)	(336,060)
Accounts payable		(2,009,202)	1,656,570
Accrued payroll and commission		(624,372)	(665,595)
Deferred revenue		51,522	
Taxes accrued and withheld		(85,528)	302,904
Income taxes		65,905	(610,892)
Accrued expenses		1,157,743	119,172
Other liabilities		(450)	(450)
Net cash (used in) provided by operating activities		(359,597)	3,032,670
Cash flows from investing activities:			
Purchases of property and equipment		(150,546)	(107,203)
Proceeds from sales of fixed assets		24,326	9,392
Change in other assets		1,291	1,292
Net cash used in investing activities		(124,929)	(96,519)
Cash flows from financing activities:			
Borrowing on line of credit		14,860,000	8,520,000
Payments on line of credit		(14,160,000)	(7,960,000)
Increase in negative book cash balances		1,188,603	670,812
Principal payments on long-term debt		(1,404,077)	(5,326,245)
Dividends paid		-	-
Net cash provided by (used in) financing activities		484,526	(4,095,433)
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, 2011

### 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, 2010, and related notes thereto contained in Champion Industries, Inc.'s Form 10-K filed January 28, 2011. 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, 2010 was derived from our audited financial statements.

### 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. There was no dilutive effect of stock options for the three months ended January 31, 2011 and 2010.

### 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. In order to calculate the appropriate monthly provision, the Company primarily utilizes a historical rate of accounts receivable written off as a percentage of total revenue. This historical rate is applied to the current revenues on a monthly basis. The historical rate is updated 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. Circulation

revenues are recognized when purchased newspapers are distributed. Amounts received from customers in advance of revenue recognized are recorded as deferred revenue.

## 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.

Inventories consisted of the following:

	January 31, 2011	October 31, 2010
Printing and newspaper:		
Raw materials	\$ 2,543,686	\$ 2,897,036
Work in process	1,149,234	1,130,291
Finished goods		