

CHAMPION INDUSTRIES INC  
Form 10-Q  
March 10, 2008

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, 2008

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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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, 2008
Common stock, \$1.00 par value per share	9,987,913 shares

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## 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, 2008 (Unaudited)	October 31, 2007 (Audited)
<b>Current assets:</b>		
Cash and cash equivalents	\$ 519,748	\$ 5,793,120
Accounts receivable, net of allowance of \$1,518,000 and \$1,511,000	21,791,060	23,239,103
Inventories	10,882,377	11,504,847
Income tax refund	378,820	632,439
Other current assets	1,441,819	882,535
Deferred income tax assets	969,664	969,664
<b>Total current assets</b>	<b>35,983,488</b>	<b>43,021,708</b>
<b>Property and equipment, at cost:</b>		
Land	2,120,689	2,120,689
Buildings and improvements	12,326,645	12,262,229
Machinery and equipment	55,936,149	55,763,920
Furniture and fixtures	4,103,272	4,088,761
Vehicles	3,209,573	3,185,555
	77,696,328	77,421,154
Less accumulated depreciation	(49,172,822)	(48,164,640)
	28,523,506	29,256,514
Cash surrender value of officers' life insurance	834,106	834,106
Goodwill	38,854,364	38,853,657
Deferred financing costs	1,748,426	1,818,140
Other intangibles, net of accumulated amortization	16,519,048	16,779,241
Trademark & masthead	18,515,316	18,515,316
Other assets	81,717	132,909
	76,552,977	76,933,369
<b>Total assets</b>	<b>\$ 141,059,971</b>	<b>\$ 149,211,591</b>

See notes to consolidated financial statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	January 31, 2008 (Unaudited)	October 31, 2007 (Audited)
<b>Current liabilities:</b>		
Accounts payable	\$ 3,789,015	\$ 5,491,189
Accrued payroll	1,857,966	2,460,287
Taxes accrued and withheld	817,353	1,294,125
Accrued expenses	1,669,659	3,433,971
Current portion of long-term debt	5,019,641	5,033,637
Total current liabilities	13,153,634	17,713,209
<b>Long-term debt, net of current portion:</b>		
Notes payable, line of credit	12,525,496	15,540,496
Notes payable, term	62,515,937	63,837,402
Other liabilities	670,867	10,950
Deferred income tax liabilities	3,382,447	3,382,447
Total liabilities	92,248,381	100,484,504
<b>Shareholders' equity:</b>		
Common stock, \$1 par value, 20,000,000 shares authorized; 9,987,913 and 9,968,913 shares issued and outstanding		
	9,987,913	9,968,913
Additional paid-in capital	22,768,610	22,733,300
Retained earnings	16,715,434	16,036,224
Other comprehensive loss	(660,367)	(11,350)
Total shareholders' equity	48,811,590	48,727,087
<b>Total liabilities and shareholders' equity</b>	<b>\$ 141,059,971</b>	<b>\$ 149,211,591</b>

See notes to consolidated financial statements.

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

	Three Months Ended January 31,	
	2008	2007
<b>Revenues:</b>		
Printing	\$ 25,180,134	\$ 25,862,367
Office products and office furniture	10,077,857	9,076,966
Newspaper	5,035,782	-
<b>Total revenues</b>	<b>40,293,773</b>	<b>34,939,333</b>
<b>Cost of sales &amp; newspaper operating costs:</b>		
Printing	17,801,054	18,238,302
Office products and office furniture	7,325,443	6,350,004
Newspaper cost of sales & operating costs	2,270,730	-
<b>Total cost of sales &amp; newspaper operating costs</b>	<b>27,397,227</b>	<b>24,588,306</b>
<b>Gross profit</b>	<b>12,896,546</b>	<b>10,351,027</b>
<b>Selling, general and administrative expenses</b>	<b>9,692,709</b>	<b>8,130,331</b>
<b>Income from operations</b>	<b>3,203,837</b>	<b>2,220,696</b>
<b>Other income (expense):</b>		
Interest income	25,237	5,230
Interest expense	(1,749,182)	(133,903)
Other	13,214	4,023
	(1,710,731)	(124,650)
<b>Income before income taxes</b>	<b>1,493,106</b>	<b>2,096,046</b>
<b>Income tax expense</b>	<b>(214,859)</b>	<b>(827,885)</b>
<b>Net income</b>	<b>\$ 1,278,247</b>	<b>\$ 1,268,161</b>
<b>Earnings per share:</b>		
Basic	\$ 0.13	\$ 0.13
Diluted	\$ 0.13	\$ 0.13
<b>Weighted average shares outstanding:</b>		
Basic	9,981,000	9,939,000
Diluted	10,045,000	10,110,000
<b>Dividends per share</b>	<b>\$ 0.06</b>	<b>\$ 0.06</b>

See notes to consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Loss	Total
Balance, October 31, 2007	9,968,913	\$ 9,968,913	\$ 22,733,300	\$ 16,036,224	\$ (11,350 )	\$ 48,727,087
Net income for 2008	-	-	-	1,278,247	-	1,278,247
Dividends (\$0.06 per share)	-	-	-	(599,037)	-	(599,037)
Stock options exercised	19,000	19,000	35,310	-	-	54,310
Other comprehensive loss	-	-	-	-	(649,017)	(649,017)
Balance, January 31, 2008	9,987,913	\$ 9,987,913	\$ 22,768,610	\$ 16,715,434	\$ (660,367)	\$ 48,811,590

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,	
	2008	2007
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,278,247	\$ 1,268,161
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,327,116	955,397
Deferred financing costs	77,368	-
Loss on sale of assets	2,523	1,209
Increase in deferred compensation	-	446
Bad debt expense	140,161	85,757
Changes in assets and liabilities:		
Accounts receivable	1,307,882	75,236
Inventories	622,470	(209,335)
Other current assets	(559,284)	(410,340)
Accounts payable	(1,690,823)	(579,801)
Accrued payroll	(602,321)	(276,262)
Taxes accrued and withheld	(476,772)	3,321
Income taxes	253,619	47,459
Accrued expenses	(148,196)	72,329
Other liabilities	(450)	(1,078)
Net cash provided by operating activities	1,531,540	1,032,499
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(359,633)	(1,161,218)
Proceeds from sales of property	18,541	23,570
Businesses acquired	(1,616,823)	(1,350,725)
Change in other assets	48,191	(3,506)
Net cash used in investing activities	(1,909,724)	(2,491,879)
<b>Cash flows from financing activities:</b>		
Borrowings on line of credit	-	4,134,000
Payments on line of credit	(3,015,000)	(4,134,000)
Proceeds from term debt and leases	-	1,351,225
Principal payments on long-term debt	(1,335,461)	(909,158)
Proceeds from exercise of stock options	54,310	109,440
Dividends paid	(599,037)	(596,094)
Net cash used in financing activities	(4,895,188)	(44,587)
Net decrease in cash and cash equivalents	(5,273,372)	(1,503,967)
Cash and cash equivalents, beginning of period	5,793,120	5,486,577
Cash and cash equivalents, end of period	\$ 519,748	\$ 3,982,610

See notes to consolidated financial statements.



## Champion Industries, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements (Unaudited)

January 31, 2008

**1. Basis of Presentation and Business Operations**

The foregoing financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and rules and regulations of the Securities and Exchange Commission for interim financial reporting. The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In the opinion of management, the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP. These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended October 31, 2007, and related notes thereto contained in Champion Industries, Inc.'s Form 10-K dated January 21, 2008. 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, 2007 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. The dilutive effect of stock options was 64,000 and 171,000 shares for the three months ended January 31, 2008 and 2007.

**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, 2008	October 31, 2007
<b>Printing and newspaper:</b>		
Raw materials	\$ 2,454,048	\$ 2,401,340
Work in process	1,734,760	1,906,301
Finished goods	4,155,092	4,003,318
Office products and office furniture	2,538,477	3,193,888
	\$ 10,882,377	\$ 11,504,847

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

## 4. Long-Term Debt

Long-term debt consisted of the following:

	January 31, 2008	October 31, 2007
Installment notes payable to banks	\$ 135,578	\$ 171,039
Term loan facility with a bank	67,400,000	68,700,000
	67,535,578	68,871,039
Less current portion	5,019,641	5,033,637
Long-term debt, net of current portion	\$ 62,515,937	\$ 63,837,402

The secured and unsecured credit facilities contain restrictive financial covenants requiring the Company to maintain certain financial ratios. The Company was in compliance with these covenants at January 31, 2008. The Company is required to maintain a minimum of \$750,000 of compensating balances with Fifth Third Bank under the terms of its credit agreement. The Company is permitted to pay dividends under its credit agreement as long as no default or event of default exists or shall exist after giving effect to the proposed dividend and the Company has delivered to the credit agreement's administrative agent prior to the proposed dividend a pro forma compliance certificate evidencing compliance with applicable covenants as defined in the credit agreement.

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, 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 can 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. The Company had borrowed \$12,525,496 and \$15,540,496 under this facility at January 31, 2008 and October 31, 2007. Pursuant to its borrowing base calculation, the Company had approximately \$5.5 million in additional availability under its \$30.0 million revolving credit line at January 31, 2008. 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. The line of credit expires in October 2008 and contains certain financial covenants. There were no borrowings outstanding under this facility at January 31, 2008 and October 31, 2007.

There were no non-cash financing activities for the three months ended January 31, 2008 and 2007.

## 5. Shareholders' Equity

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The Company paid a dividend of six cents per share on December 28, 2007 to stockholders of record on December 7, 2007. Also, the Company declared a dividend of six cents per share to be paid on March 24, 2008 to stockholders of record on March 7, 2008.

The Company issued 19,000 and 34,000 shares for the exercise of stock options during the first quarter of 2008 and 2007, for total proceeds from stock options exercised of approximately \$54,000 and \$109,000.

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

## 6. Commitments and Contingencies

As of January 31, 2008 the Company had contractual obligations in the form of leases and debt as follows:

Contractual Obligations	Payments Due by Fiscal Year						Residual	Total
	2008	2009	2010	2011	2012			
Non-cancelable operating leases	\$ 906,846	\$ 839,739	\$ 542,912	\$ 440,242	\$ 283,200	\$ 221,200	\$ 3,234,139	
Line of credit	-	-	-	-	12,525,496	-	12,525,496	
Term debt	3,773,176	4,937,402	4,900,000	4,900,000	4,900,000	44,125,000	67,535,578	
	\$ 4,680,022	\$ 5,777,141	\$ 5,442,912	\$ 5,340,242	\$ 17,708,696	\$ 44,346,200	\$ 83,295,213	

## 7. Accounting for Stock-Based Compensation

In December 2004, the FASB issued SFAS No. 123R (revised 2004), "Share-Based Payment." This statement revises SFAS No. 123, "Accounting for Stock-Based Compensation," and requires companies to expense the value of employee stock options and similar awards. The effective date of this standard initially was for interim and annual periods beginning after June 15, 2005. On April 14, 2005, the United States Securities and Exchange Commission amended the effective date of this standard to the beginning of a company's fiscal year that begins after June 15, 2005. Therefore, the effective date of this standard for the Company was November 1, 2005. Since the Company's employee stock options vest immediately in the year granted, the initial adoption of this standard had no effect on the Company's financial statements. However, the Company will be required to expense the fair value of the employee stock options when future options are granted or when existing options are modified or repurchased pursuant to the provisions of SFAS No. 123R.

The Company did not issue any employee stock options for the three months ended January 31, 2008 and 2007.

## 8. Income Taxes

The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) effective November 1, 2007 with no effect on the Company's consolidated financial statements. As of the date of adoption, the Company had approximately \$150,000 of unrecognized tax benefits, all of which would impact the effective tax rate if recognized. The Company is not currently under examination by the IRS. As of November 1, 2007, the Company is subject to U.S. Federal income tax examinations for the fiscal tax years ended October 31, 2004, 2005, 2006 and 2007. State Income Tax returns are generally subject to a period of examination for a period of three to five years. We have one state income tax return covering our fiscal year end 2004 and 2005 currently under examination. Tax interest and penalties are classified as income taxes in the accompanying statements of income and were insignificant for all periods presented. The Company does not currently anticipate that any significant increase or decrease to the unrecognized tax benefit will be recorded during the next 12 months.

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

9. Acquisitions

On September 14, 2007, the Company completed, pursuant to an asset purchase agreement, the acquisition of The Herald-Dispatch daily newspaper in Huntington, WV. The purchase price was \$77.0 million and subject to a working capital payment of \$837,554 plus or minus any change in working capital from the index working capital base of \$1,675,107 at the closing date of September 14, 2007. The working capital payment totaled approximately \$1.6 million and was paid in January 2008.

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

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

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## 10. 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 publishes The Herald-Dispatch daily newspaper in Huntington, West Virginia with a total daily and Sunday circulation of approximately 27,000 and 32,000, respectively.

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

2008 Quarter 1	Printing	Office Products & Furniture	Newspaper	Total
Revenues	\$ 28,507,768	\$ 12,058,132	\$ 5,035,782	\$ 45,601,682
Elimination of intersegment revenue	(3,327,634)	(1,980,275)	-	(5,307,909)
Consolidated revenues	\$ 25,180,134	\$ 10,077,857	\$ 5,035,782	\$ 40,293,773
Operating income	1,344,079	499,699	1,360,059	3,203,837
Depreciation & amortization	918,771	54,887	353,458	1,327,116
Capital expenditures	282,641	43,002	33,990	359,633
Identifiable assets	56,124,161	3,860,314	81,075,496	141,059,971
Goodwill	2,226,837	1,230,485	35,397,042	38,854,364
2007 Quarter 1	Printing	Office Products & Furniture	Newspaper	Total
Revenues	\$ 28,999,524	\$ 11,229,940	\$ -	\$ 40,229,464
Elimination of intersegment revenue	(3,137,157)	(2,152,974)	-	(5,290,131)
Consolidated revenues	\$ 25,862,367	\$ 9,076,966	\$ -	\$ 34,939,333
Operating income	1,739,649	481,047	-	2,220,696
Depreciation & amortization	904,263	51,134	-	955,397
Capital expenditures	1,131,915	29,303	-	1,161,218
Identifiable assets	54,752,575	10,375,416	-	65,127,991

Goodwill	2,226,837	1,184,674	-	3,411,511
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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 income before income taxes, for the three months ended January 31, 2008 and 2007, is as follows:

	Three Months Ended January 31,	
	2008	2007
<b>Revenues:</b>		
Total segment revenues	\$ 45,601,682	\$ 40,229,464
Elimination of intersegment revenue	(5,307,909)	(5,290,131)
<b>Consolidated revenue</b>	<b>\$ 40,293,773</b>	<b>\$ 34,939,333</b>
<b>Operating income:</b>		
Total segment operating income	\$ 3,203,837	\$ 2,220,696
Interest income	25,237	5,230
Interest expense	(1,749,182)	(133,903)
Other (expense) income	13,214	4,023
<b>Consolidated income before income taxes</b>	<b>\$ 1,493,106</b>	<b>\$ 2,096,046</b>
<b>Identifiable assets:</b>		
Total segment identifiable assets	\$ 141,059,971	\$ 65,127,991
Elimination of intersegment assets	-	-
<b>Total consolidated assets</b>	<b>\$ 141,059,971</b>	<b>\$ 65,127,991</b>

#### 11. 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. 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 3.27% at January 31, 2008). The remaining term of this swap agreement is approximately 33 months. In fiscal 2008, the Company recorded a net change in the fair value of the fixed interest rate swap agreement in the amount of \$649,000, net of income tax as other comprehensive loss. The cumulative other comprehensive loss, net of income tax, recorded by the Company was \$660,000 at January 31, 2008. The net additional interest payments made or received under this swap agreement are recognized in interest expense.



## 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 Income Statements as a percentage of total revenues.

	Three Months Ended January 31, (\$ In thousands)			
	2008		2007	
<b>Revenues:</b>				
Printing	\$ 25,180	62.5 %	\$ 25,862	74.0%
Office products and office furniture	10,078	25.0	9,077	26.0
Newspaper	5,036	12.5	-	-
Total revenues	40,294	100.0	34,939	100.00
<b>Cost of sales &amp; newspaper operating costs:</b>				
Printing	17,801	44.2	18,238	52.2
Office products and office furniture	7,325	18.2	6,350	18.2
Newspaper cost of sales and operating costs	2,271	5.6	-	-
Total cost of sales & newspaper operating costs	27,397	68.0	24,588	70.4
Gross profit	12,897	32.0	10,351	29.6
Selling, general and administrative expenses	9,693	24.0	8,130	23.2
Income from operations	3,204	8.0	2,221	6.4
Interest income	25	0.0	5	0.0
Interest expense	(1,749)	(4.3)	(134)	(0.4)
Other income	13	0.0	4	0.0
Income before taxes	1,493	3.7	2,096	6.0
Income taxes	(215)	(0.5)	(828)	(2.4)
Net income	\$ 1,278	3.2%	\$ 1,268	3.6%

Champion Industries, Inc. and Subsidiaries

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

Three Months Ended January 31, 2008 Compared to Three Months Ended January 31, 2007

Revenues

Total revenues increased 15.3% in the first quarter of 2008 compared to the same period in 2007 from \$34.9 million to \$40.3 million. Printing revenue decreased 2.6% in the first quarter of 2008 to \$25.2 million from \$25.9 million in the first quarter of 2007. Office products and office furniture revenue increased 11.0% in the first quarter of 2008 to \$10.1 million from \$9.1 million in the first quarter of 2007. The decrease in printing sales was due to sluggish sales in several of our commercial plants that operate primarily in the sheetfed arena. The increase in office products and office furniture sales was primarily due to higher furniture sales associated with contract furniture projects. The Company recorded newspaper revenues associated with the acquisition of The Herald-Dispatch of approximately \$5.0 million consisting of advertising revenue of approximately \$3.9 million and \$1.1 million in circulation revenues. The on-line revenues for the three months ended January 31, 2008 approximated \$340,000 and are recorded as a component of advertising revenue.

Cost of Sales and Newspaper Operating Costs

Total cost of sales increased 11.4% in the first quarter of 2008 to \$27.4 million from \$24.6 million in the first quarter of 2007. Printing cost of sales in the first quarter of 2008 decreased \$437,000 over the prior year primarily due to lower printing sales on relatively flat gross margin percent. Office products and office furniture cost of sales increased in 2008 from 2007 levels and increased as a percent of sales from 70.0% in 2007 to 72.7% in 2008. The increase in office products and office furniture cost of sales as a percent of sales is primarily reflective of an increase in furniture cost of sales as a percent of furniture sales. Newspaper cost of sales as a percent of newspaper sales were 45.1% for the three months ended January 31, 2008.

Operating Expenses

In the first quarter of 2008, selling, general and administrative expenses increased on a gross dollar basis to \$9.7 million from \$8.1 million in 2007, an increase of \$1.6 million or 19.2%. As a percentage of sales, the expenses increased on a quarter to quarter basis in 2008 to 24.0% from 23.2% in 2007 of total sales. The increase in selling, general and administrative expenses is primarily the result of the acquisition of The Herald-Dispatch.

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 2008 to \$3.2 million from \$2.2 million in the first quarter of 2007. This increase is the result of the acquisition of The Herald-Dispatch.

Other expense (net), increased approximately \$1.6 million from 2007 to 2008 primarily due to increases in interest expense resulting from higher average borrowings associated with the financing to purchase The Herald-Dispatch.

Income Taxes

The Company's effective income tax rate was 14.4% for the first quarter of 2008 and 39.5% for the first quarter of 2007. The decrease in income taxes as a percentage of income before taxes is primarily related to amortization expense deductions recorded as a permanent difference due to the acquisition of The Herald-Dispatch. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate.

Net Income

Net income for the first quarter of 2008 was \$1,278,000 compared to net income of \$1,268,000 in the first quarter of 2007. Basic and diluted earnings per share for the three months ended January 31, 2008 and 2007 were \$0.13 and \$0.13.

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.

Seasonality

Historically, the Company has experienced a greater portion of its profitability in the second and fourth quarters than in the first and third quarters. The second quarter generally reflects 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.

Our business is subject to seasonal fluctuations that we expect to continue to be reflected in our operating results in future periods. 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 includes 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.



Liquidity and Capital Resources

Net cash provided by operations for the three months ended January 31, 2008, was \$1.5 million compared to net cash provided by operations of \$1.0 million during the same period in 2007. This change in net cash from operations is due primarily to higher depreciation and amortization expense primarily as a result of the acquisition of The Herald-Dispatch.

Net cash used in investing activities for the three months ended January 31, 2008 was \$1.9 million compared to \$2.5 million during the same period in 2007. The net cash used in investing activities during the first three months of 2008 primarily relates to the payment of the working capital adjustment associated with the acquisition of The Herald-Dispatch and the purchase of equipment and vehicles. The net cash used in investing activities during the first three months of 2007 primarily relates to the payment of the contingent purchase price for the Syscan acquisition, capital expenditures for the build out of the facility occupied by Champion Output Solutions and the purchase of equipment and vehicles.

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Champion Industries, Inc. and Subsidiaries

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

Net cash used in financing activities for the three months ended January 31, 2008 was \$4.9 million compared to \$45,000 during the same period in 2007. This increase is primarily due to payments on the line of credit and scheduled principal payments on indebtedness.

The Company's off balance sheet arrangements at January 31, 2008 relate to the Syscan acquisition and are associated with a put option permitting Williams Land Corporation to sell a building to the Company for \$1.5 million. This option may be exercised no later than 60 days prior to the end of the lease and closing of said purchase cannot exceed 45 days from the end of the lease. The lease term concludes effective September 1, 2009.

Working capital on January 31, 2008 was \$22.8 million, a decrease of \$2.5 million from October 31, 2007. Management believes that working capital and operating ratios remain at acceptable levels.

The Company expects that the combination of funds available from working capital, borrowings available under the Company's credit facilities and anticipated cash flows from operations will provide sufficient capital resources for the foreseeable future. In the event the Company seeks to accelerate internal growth or make acquisitions beyond these sources, additional financing would be necessary.

#### Environmental Regulation

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

#### Special Note Regarding Forward-Looking Statements

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

#### ITEM 3a. Quantitative and Qualitative Disclosure About Market Risk

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

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ITEM 4. Controls and Procedures

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



PART II - OTHER INFORMATION

Item 1A. Risk Factors

There were no material changes in risk factors from disclosures previously reported in our annual report on Form 10-K for the fiscal year ended October 31, 2007.

Item 6. Exhibits

a)

Exhibits:

- |        |   |                                   |
|--------|---|-----------------------------------|
| (31.1) | Principal Executive Officer<br>Certification Pursuant to Section 302<br>of the Sarbanes-Oxley act of 2002 -<br>Marshall T. Reynolds   | Exhibit 31.1 Page Exhibit 31.1-p1 |
| (31.2) | Principal Financial Officer<br>Certification Pursuant to Section 302<br>of the Sarbanes-Oxley act of 2002 -<br>Todd R. Fry  | Exhibit 31.2 Page Exhibit 31.2-p1 |
| (31.3) | Principal Operating Officer<br>Certification Pursuant to Section 302<br>of the Sarbanes-Oxley act of 2002 -<br>Toney K. Adkins  | Exhibit 31.3 Page Exhibit 31.3-p1 |
| (32)   | Marshall T. Reynolds, Todd R. Fry<br>and Toney K. Adkins Certification<br>Pursuant to 18 U.S.C. Section 1350 as<br>Adopted Pursuant to Section 906 of<br>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 10, 2008

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

Date: March 10, 2008

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

Date: March 10, 2008

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