

CHAMPION INDUSTRIES INC
Form 10-Q
June 15, 2015
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 April 30, 2015

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. 000-21084

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 _____.

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

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

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 April 30, 2015
Common stock, \$1.00 par value per share	11,299,528 shares

1

Champion Industries, Inc.

INDEX

	Page Number
Part I. Financial Information	
Item 1. Financial Statements	
Consolidated Balance Sheets (Unaudited)	3
Consolidated Statements of Operations (Unaudited)	4
Consolidated Statements of Cash Flows (Unaudited)	5
Notes to Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3. Quantitative and Qualitative Disclosure About Market Risk	22
Item 4. Controls and Procedures	22
Part II. Other Information	
Item 1. Legal Proceedings	23
Item 1A. Risk Factors	23
Item 3. Defaults upon Senior Securities	23
Item 4. Mine Safety Disclosure	23
Item 5. Other Information	23
Item 6. Exhibits	23
Signatures	24

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Champion Industries, Inc. and Subsidiaries

Consolidated Balance Sheets

	April 30, 2015 (Unaudited)	October 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 717,363	\$ 818,438
Accounts receivable, net of allowance of \$533,000 and \$688,000	9,912,624	9,512,731
Inventories	4,242,805	3,969,992
Other current assets	472,785	226,307
Assets held for sale	256,832	256,832
Total current assets	15,602,409	14,784,300
Property and equipment, at cost:		
Land	1,254,195	1,254,195
Buildings and improvements	4,653,401	4,923,113
Machinery and equipment	33,388,304	33,297,081
Equipment under capital lease	72,528	72,528
Furniture and fixtures	3,707,516	3,639,966
Vehicles	2,595,345	2,488,981
	45,671,289	45,675,864
Less accumulated depreciation	(39,308,106)	(38,991,652)
	6,363,183	6,684,212
Goodwill	1,230,485	1,230,485
Deferred financing costs	13,030	69,644
Other intangibles, net of accumulated amortization	1,118,894	1,179,943
Other assets	59,809	59,809
	2,422,218	2,539,881
Total assets	\$ 24,387,810	\$ 24,008,393
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,536,131	\$ 4,518,634
Accrued payroll and commissions	718,864	583,529
Taxes accrued and withheld	684,352	666,166
Accrued expenses	1,686,611	1,553,978
Debt discount (Note 5)	-	(138,520)
Notes payable (Note 5)	1,850,280	10,947,218
Notes payable - related party (Note 5)	2,500,000	2,500,000
Capital lease obligations (Note 5)	15,385	14,931
Total current liabilities	12,991,623	20,645,936
Long-term debt, net of current portion:		
Notes payable (Note 5)	8,590,149	128,690
Capital lease obligations (Note 5)	20,573	28,381

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

Total liabilities	21,602,345	20,803,007
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	(32,793,242)	(32,373,321)
Total shareholders' equity	2,785,465	3,205,386
Total liabilities and shareholders' equity	\$ 24,387,810	\$ 24,008,393

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,	
	2015	2014	2015	2014
Revenues:				
Printing	\$ 9,119,073	\$ 9,667,563	\$ 18,507,595	\$ 19,026,172
Office products and office furniture	7,170,035	5,364,717	12,581,773	11,428,807
Total revenues	16,289,108	15,032,280	31,089,368	30,454,979
Cost of sales:				
Printing	6,710,558	7,151,120	13,807,063	14,377,730
Office products and office furniture	5,400,916	3,974,004	9,355,688	8,409,771
Total cost of sales	12,111,474	11,125,124	23,162,751	22,787,501
Gross profit	4,177,634	3,907,156	7,926,617	7,667,478
Selling, general and administrative expenses	3,839,236	4,085,604	7,792,159	8,206,078
Income (loss) from operations	338,398	(178,448)	134,458	(538,600)
Other income (expenses):				
Interest expense - related party	(20,087)	(20,087)	(40,851)	(40,851)
Interest expense	(206,076)	(256,604)	(470,053)	(520,365)
Other	(64,338)	206,644	(43,475)	221,138
	(290,501)	(70,047)	(554,379)	(340,078)
Income (loss) before income taxes	47,897	(248,495)	(419,921)	(878,678)
Income tax expense	-	-	-	-
Net income (loss)	\$ 47,897	\$ (248,495)	\$ (419,921)	\$ (878,678)
Income (loss) per share:				
Basic and Diluted income (loss) per common share	\$ -	\$ (0.02)	\$ (0.04)	\$ (0.08)
Weighted average shares outstanding:				
Basic and Diluted	11,300,000	11,300,000	11,300,000	11,300,000

See notes to consolidated financial statements.

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

Champion Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Six Months Ended April 30,
2015

2014

Cash flows from operating activities:

Net (loss)	\$ (419,921)	\$ (878,678)
------------	---------------	--------------

Adjustments to reconcile net (loss) from continuing operations
to cash provided by (used in) operating activities:

Depreciation and amortization	817,047	1,034,296
Loss (gain) on sale/disposal of assets	66,278	(214,551)
Allowance for doubtful accounts	3,167	35,594
Deferred financing costs / debt discount	182,478	259,097

Changes in assets and liabilities:

Accounts receivable	(403,061)	(37,732)
Inventories	(272,813)	272,169
Other current assets	(246,478)	85,280
Accounts payable	1,017,497	(1,254,871)
Accrued payroll and commissions	135,335	(205,223)
Taxes accrued and withheld	18,186	(23,471)
Accrued expenses	132,633	(117,781)
Other liabilities	-	(150)

Net cash provided by (used in) operating activities
continuing operations

	1,030,348	(1,046,021)
Net cash provided by operating activities discontinued operations	-	66,047
	1,030,348	(979,974)

Cash flows from investing activities:

Purchase of property and equipment	(560,004)	(299,959)
Proceeds from sale of fixed assets	58,758	454,829
Change in other assets	12,656	(8,643)
Net cash (used in) provided by investing activities	(488,590)	146,227

Cash flows from financing activities:

Proceeds from term debt	1,151,685	254,882
Principal payments on term debt	(1,794,518)	(514,601)
Net cash used in financing activities	(642,833)	(259,719)

Net decrease in cash and cash equivalents

	(101,075)	(1,093,466)
Cash and cash equivalents at beginning of period	818,438	1,428,542
Cash and cash equivalents at end of period	\$ 717,363	\$ 335,076

See notes to consolidated financial statements.

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

Note 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, 2014, and related notes thereto contained in Champion Industries, Inc.’s Form 10-K filed January 29, 2015. 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, 2014 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.

Newly Issued Accounting Standards

Effective July 1, 2009, changes to the ASC are communicated through an ASU. As of April 30, 2015, the FASB has issued ASU’s 2009-01 through 2015-06. 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 January 2015, the FASB issued ASU 2015-01, “Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items” (“ASU 2015-01”). ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. The Company adopted ASU 2015-01 in December, 2015. This amendment did not have a material impact on the Company's financial position, results of operation, or cash flows, but will have an impact on related presentation and disclosure to the extent applicable.

Note 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, 2015 and 2014.

Note 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 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. 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)

Note 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.

At the dates indicated inventories consisted of the following:

	April 30, 2015	October 31, 2014
Printing:		
Raw materials	\$ 1,242,504	\$ 1,180,361
Work in process	622,685	539,023
Finished goods	1,070,220	1,131,430
Office products and office furniture	1,307,396	1,119,178
Total	\$ 4,242,805	\$ 3,969,992

Note 5. Debt

At the dates indicated debt consisted of the following:

	April 30, 2015	October 31, 2014
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, 2017, collateralized by substantially all of the assets of the Company.	\$ 9,050,000	\$ 9,850,000
Installment notes payable to banks, 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 through February 2017, collateralized by equipment and vehicles.	540,429	475,908
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, the maturity was adjusted to April 2015. The interest is accrued on this note at a rate of 3.25%. On June 15, 2015, subsequent to the April 30, 2015 Balance Sheet date, the Company's Board of Directors approved the conversion of this note to Preferred Stock equity. See Note 11 for information on this conversion.	2,500,000	2,500,000

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

Notes payable to a bank, due August 2015, respectively including interest accrued at 5.00% collateralized by specific accounts receivable of the Company	850,000	750,000
Capital lease obligation for printing equipment at an imputed interest rate of 6.02% per annum	35,958	43,312
Unamortized debt discount	-	(138,520)
	12,976,387	13,480,700
Less current portion long-term debt	3,500,280	12,697,218
Less current portion obligation under capital lease	15,385	14,931
Less short-term debt	850,000	750,000
Less debt discount	-	(138,520)
Long-term debt, net of current portion and capital lease obligation	\$ 8,610,722	\$ 157,071
Continuing operations:		
Long-term debt, net of current portion	\$ 8,590,149	\$ 128,690
Long-term capital lease obligation	20,573	28,381
Current portion of long-term debt	1,000,280	10,197,218
Long-term notes payable to related party	2,500,000	2,500,000
Current portion of capital lease obligation	15,385	14,931
Short-term debt	850,000	750,000
Debt discount	-	(138,520)
Total indebtedness	\$ 12,976,387	\$ 13,480,700

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

Note 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, 2014. The Company reassessed its previous determination regarding its valuation allowance and although the Company has positive operating trends, it was determined that a full valuation allowance was still warranted at April 30, 2015. The amount of deferred tax asset considered realizable could be adjusted in future periods 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, 2015 and 2014 was 0.0%. 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.

Note 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, 2015 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.

At April 30, 2015 the Company had contractual obligations in the form of leases and debt as follows:

Contractual Obligations	Payments Due by Fiscal Year					Residual	Total
	2015	2016	2017	2018	2019		
Non-cancelable operating leases	\$ 237,172	\$ 427,348	\$ 367,939	\$ 278,632	\$ 174,088	\$ 21,000	\$ 1,506,179
Term debt	1,397,972	866,521	8,175,936	-	-	-	10,440,429
Obligations under capital lease	7,577	15,853	12,528	-	-	-	35,958
Debt discount	-	-	-	-	-	-	-
Notes payable - related party	2,500,000	-	-	-	-	-	2,500,000
	\$ 4,142,721	\$ 1,309,722	\$ 8,556,403	\$ 278,632	\$ 174,088	\$ 21,000	\$ 14,482,566

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

Note 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 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 representing \$256,832 at April 30, 2015 and \$315,275 at April 30, 2014. These assets were part of the printing and newspaper segments prior to the reclassification as assets held for sale. The total assets reported on the Company's balance sheets as of April 30, 2015 and April 30, 2014 are \$24,387,810 and \$24,960,967, respectively. The identifiable assets reported below represent \$24,130,978 and \$24,645,692.

The tables below present information about reported segments for the three (Quarter 2) and six months (Year to Date) ended April 30:

2015 Quarter 2	Printing	Office Products & Furniture	Total
Revenues	\$ 9,674,038	\$ 7,831,722	\$ 17,505,760
Elimination of intersegment revenue	(554,965)	(661,687)	(1,216,652)
Consolidated revenues	\$ 9,119,073	\$ 7,170,035	\$ 16,289,108
Operating income (loss)	355,970	(17,572)	338,398
Depreciation & amortization	390,623	24,422	415,045
Capital expenditures	112,509	-	112,509
Identifiable assets	16,254,808	7,876,170	24,130,978
Goodwill	-	1,230,485	1,230,485

2014 Quarter 2	Printing	Total
----------------	----------	-------

Office Products &
Furniture

Revenues	\$	10,166,681	\$	6,113,724	\$	16,280,405
Elimination of intersegment revenue		(499,118)		(749,007)		(1,248,125)
Consolidated revenues	\$	9,667,563	\$	5,364,717	\$	15,032,280
Operating income (loss)		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

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

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

2015 Year to Date	Office Products &		Total
	Printing	Furniture	
Revenues	\$ 19,590,937	\$ 14,044,695	\$ 33,635,632
Elimination of intersegment revenue	(1,083,342)	(1,462,922)	(2,546,264)
Consolidated revenues	\$ 18,507,595	\$ 12,581,773	\$ 31,089,368
Operating income (loss)	262,773	(128,315)	134,458
Depreciation & amortization	770,266	46,781	817,047
Capital expenditures	489,810	70,194	560,004
Identifiable assets	16,254,808	7,876,170	24,130,978
Goodwill	-	1,230,485	1,230,485

2014 Year to Date	Office Products &		Total
	Printing	Furniture	
Revenues	\$ 20,013,735	\$ 13,003,762	\$ 33,017,497
Elimination of intersegment revenue	(987,563)	(1,574,955)	(2,562,518)
Consolidated revenues	\$ 19,026,172	\$ 11,428,807	\$ 30,454,979
Operating (loss)	(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

A reconciliation of total segment revenue, assets and operating income (loss) to consolidated income (loss) before income taxes, for the three and six months ended April 30, 2015 and 2014 is as follows:

	Three months		Six months	
	2015	2014	2015	2014
Revenues:				
Total segment revenues	\$ 17,505,760	\$ 16,280,405	\$ 33,635,632	\$ 33,017,497
Elimination of intersegment revenue	(1,216,652)	(1,248,125)	(2,546,264)	(2,562,518)
Consolidated revenue	\$ 16,289,108	\$ 15,032,280	\$ 31,089,368	\$ 30,454,979
Operating income (loss) from continuing operations:				
Total segment operating income (loss)	\$ 338,398	\$ (178,448)	\$ 134,458	\$ (538,600)
Interest expense - related party	(20,087)	(20,087)	(40,851)	(40,851)
Interest expense	(206,076)	(256,604)	(470,053)	(520,365)
Other (expense) income	(64,338)	206,644	(43,475)	221,138
Consolidated income (loss) before income taxes	\$ 47,897	\$ (248,495)	\$ (419,921)	\$ (878,678)

Identifiable assets:				
Total segment identifiable assets	\$ 24,130,978	\$ 24,645,692	\$ 24,130,978	\$ 24,645,692
Assets not allocated to a segment	256,832	315,275	256,832	315,275
Total consolidated assets	\$ 24,387,810	\$ 24,960,967	\$ 24,387,810	\$ 24,960,967

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited) (continued)

Note 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 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 \$1.4 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)

Note 10. Acquired Intangible Assets and Goodwill

	April 30, 2015		October 31, 2014	
	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	1,332,179	2,451,073	1,271,130
Other	564,946	564,946	564,946	564,946
	4,016,019	2,897,125	4,016,019	2,836,076
Unamortizable intangible assets:				
Goodwill	1,737,763	507,278	1,737,763	507,278
	1,737,763	507,278	1,737,763	507,278
Total goodwill and other intangibles	\$ 5,753,782	\$ 3,404,403	\$ 5,753,782	\$ 3,343,354

Amortization expense for the three and six months ended April 30, 2015 was \$31,000 and \$61,000, and for the three and six months ended April 30, 2014 was \$32,000 and \$67,000, respectively. Customer relationships are being amortized over a period of 20 years, related to the acquisition of Syscan in 2004. The weighted average remaining life of the Company's amortizable intangible assets was approximately 5 years.

Estimated amortization expense for each of the following years is:

2015	\$ 61,049
2016	122,098
2017	122,098
2018	122,098
2019	122,098
Thereafter	569,453
	\$ 1,118,894

The changes in the carrying amount of goodwill and other amortizing intangibles for the six months ended April 30, 2015 were:

Goodwill:

	Printing	Office Products and Furniture	Total
Balance at October 31, 2014			
Goodwill	\$ 2,226,837	\$ 1,230,485	\$ 3,457,322
Accumulated impairment losses	(2,226,837)	-	(2,226,837)

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-Q

	-	1,230,485	1,230,485
Goodwill acquired six months ended April 30, 2015	-	-	-
Impairment losses six months ended April 30, 2015	-	-	-
Balance at April 30, 2015			
Goodwill	2,226,837	1,230,485	3,457,322
Accumulated impairment losses	(2,226,837)	-	(2,226,837)
	\$ -	\$ 1,230,485	\$ 1,230,485

13

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

Amortizing Intangible Assets (net of amortization expense):

	Printing	Office Products and Furniture	Total
Balance at October 31, 2014			
Amortizing intangible assets	\$ 395,206	\$ 784,737	\$ 1,179,943
Accumulated impairment losses	-	-	-
	395,206	784,737	1,179,943
Amortizing intangible assets acquired six months ended April 30, 2015	-	-	-
Impairment losses six months ended April 30, 2015	-	-	-
Amortization expense	20,451	40,598	61,049
Balance at April 30, 2015			
Amortizing intangible assets	374,755	744,139	1,118,894
Accumulated impairment losses	-	-	-
	\$ 374,755	\$ 744,139	\$ 1,118,894

Note 11. Subsequent Events

The Company has evaluated subsequent events through June 15, 2015 for the Balance Sheet dated April 30, 2015.

On June 15, 2015 the Company's Board of Directors approved the conversion of the Company's \$2.5 million related party debt to Preferred Stock equity. The Preferred Stock will pay a 6.00% or 0.00% annual dividend contingent on the Company's income after income taxes. If the Company's income after income taxes is \$1.0 million or greater, the dividend rate is 6.00%; if the Company's income after income taxes is less than \$1.0 million, the dividend rate is 0.00%.

This conversion will reduce the Company's liabilities by \$2.5 million and increase its equity by \$2.5 million. In addition, this conversion will reduce the Company's annual interest expense by \$0.1 million. However, contingent on the after income tax income, this conversion could trigger the payment of an annual Preferred Stock dividend of \$0.2 million or zero. If the \$1.0 million after income tax income target is achieved, the Company's annual cash outflow would increase \$0.1 million, or decrease \$0.1 million if the \$1.0 million after income tax income target is not achieved. See Note 5 to the Consolidated Financial Statements for more information on the Company's related party debt.

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

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

Results of Operations

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

	Percentage of Total Revenues			
	Three Months Ended April 30,		Six Months Ended April 30,	
	2015	2014	2015	2014
Revenues:				
Printing	56.0%	64.3%	59.5%	62.5%
Office products and office furniture	44.0	35.7	40.5	37.5
Total revenues	100.0	100.0	100.0	100.0
Cost of sales:				
Printing	41.2	47.6	44.4	47.2
Office products and office furniture	33.2	26.4	30.1	27.6
Total cost of sales	74.4	74.0	74.5	74.8
Gross profit	25.6	26.0	25.5	25.2
Selling, general and administrative expenses	23.5	27.2	25.1	27.0
(Loss) income from operations	2.1	(1.2)	0.4	(1.8)
Interest expense - related party	(0.1)	(0.1)	(0.1)	(0.1)
Interest expense	(1.3)	(1.7)	(1.6)	(1.7)
Other income	(0.4)	1.3	(0.1)	0.7
(Loss) before taxes	0.3	(1.7)	(1.4)	(2.9)
Income tax expense	0.0	0.0	0.0	0.0
Net income	0.3%	(1.7)%	(1.4)%	(2.9)%

Champion Industries, Inc. and Subsidiaries

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

Three Months Ended April 30, 2015 Compared to Three Months Ended April 30, 2014

Revenues

Total revenues increased \$1.3 million or 8.4% in the second quarter of 2015 compared to the same period in 2014 to \$16.3 million from \$15.0 million.

Printing revenue decreased \$0.5 million or 5.7% in the second quarter of 2015 to \$9.1 million from \$9.7 million when compared to the second quarter of 2014. The printing revenue decrease in the second quarter of 2015 compared to the same period in 2014 was primarily reflective of customer specific sales decreases and turnover within three of the printing divisions. The remainder of the divisions within the printing segment increased sales year over year or were flat. We do not anticipate significant sales declines from customer turnover in the near term.

Office products and office furniture revenue increased \$1.8 million or 33.7% in the second quarter of 2015 to \$7.2 million from \$5.4 million in the second quarter of 2014. The office products and office furniture sales increase in the second quarter of 2015, when compared to the second quarter of 2014, is due to higher office furniture sales. Office product sales were relatively flat quarter over quarter.

Cost of Sales

Total cost of sales increased \$1.0 million or 8.9% in the second quarter of 2015 to \$12.1 million from \$11.1 million in the second quarter of 2014. As a percentage of sales cost of sales were 74.4% in the second quarter of 2015 compared to 74.0% in the same period in 2014.

Printing cost of sales in the second quarter of 2015 decreased \$0.4 million or 6.2% and decreased as a percentage of printing sales from 74.0% in 2014 to 73.6% in 2015.

Office products and office furniture cost of sales increased in the second quarter of 2015 from the same period in 2014 due to higher sales. As a percentage of office products and office furniture sales, cost of sales increased from 74.1% in 2014 to 75.3% in 2015 due to the large dollar volume and small transaction volume of furniture jobs that compressed sales margins as well as slightly higher cost of office products and office furniture.

Operating Expenses

In the second quarter of 2015, selling, general and administrative ("SG&A") expenses decreased \$0.2 million or 6.0% to \$3.8 million from \$4.1 million during the same period in 2014. As a percentage of total sales, SG&A expenses decreased on a quarter to quarter basis in 2015 to 23.5% from 27.2% in 2014. The decrease in SG&A in total and as a percentage of sales in the fiscal second quarter of 2015 compared to the same period in 2014 was primarily reflective of lower insurance costs associated with our health insurance plan as well as decreases in depreciation, rent, information technology, and advertising expenses. These decreases were partially offset by increases in payroll, professional, and repair and maintenance expenses. Management intends to continue to maximize efficiency in operations and monitor expenses to properly align with sales levels and industry benchmarks.

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

Segment Operating Income (Loss)

The printing segment reported an operating income in the second quarter of 2015 of \$0.4 million compared to an operating income of \$0.1 million in the second quarter of 2014. The increase in operating income was primarily attributable to lower SG&A expenses and slightly higher gross profit margins.

The office products and office furniture segment reported an operating loss of \$(18,000) in the second quarter of 2015 compared to an operating loss of \$(0.2) million in the second quarter of 2014. The decrease in the operating loss for this segment is the result of higher sales volume.

Income (Loss) from Operations

The income from operations in the second quarter of 2015 was \$0.3 million compared to a loss from operations of \$(0.2) million in the second quarter of 2014. This increase in profitability in operations was primarily the result of higher sales volume in the office products and office furniture segment and lower costs in the printing segment.

Other Income (Expense)

Other income (expenses), are comprised of interest expense, gains and losses on the sale or disposal of assets, and other miscellaneous income and expenses. On a net basis, other income (expenses) increased \$(0.2) million in the second quarter of 2015 when compared to the same period in 2014. Interest expense on related party debt was 20,000 in 2015 and 2014; interest expense on debt was \$0.2 million in the second quarter of 2015 compared to \$0.3 million for the same period in 2014. Other income (expenses) was a net expense of \$(0.1) million in 2015 compared to other income of \$0.2 million in 2014. The interest expense on debt was lower in the second quarter of 2015 compared to the same period in 2014 due to lower principal balances on debt during the period. The other expense of \$(0.1) million, in the second quarter of 2015, was primarily the result of leasehold improvement write-offs of \$(0.1) million. In the same period in 2014 the other income of \$0.2 million was due to a gain on the sale of a building. The write-off of the leasehold improvements was due to the move of one of the office products and office furniture divisions to a new facility.

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, 2014. The Company reassessed its previous determination regarding its valuation allowance and determined that a full valuation allowance was warranted at April 30, 2015. The amount of deferred tax asset considered realizable could be adjusted in future periods based on a multitude of factors, and such adjustments may be material to the Consolidated Financial Statements.

The Company's effective tax rate for the three months ended April 30, 2015 and 2014 was 0.0%. 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.

Net Income (Loss)

Net income for the second quarter of 2015 was \$48,000 compared to a net loss of \$(0.2) million in the second quarter of 2014. Basic and diluted income (loss) per share for the three months ended April 30, 2015 and 2014 were an income of \$0.0 and a loss of \$(0.02), respectively.

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

Six Months Ended April 30, 2015 Compared to Six Months Ended April 30, 2014

Revenues

Total revenues increased 2.1% in the first six months of 2015 compared to the same period in 2014 to \$31.1 million from \$30.5 million.

Printing revenue decreased \$0.5 million or 2.7% in the six month period ended April 30, 2015 to \$18.5 million from \$19.0 million in the same period in 2014. The printing revenue decrease for the first six months of 2015 compared to the same period in 2014 was primarily reflective of customer specific sales decreases and turnover within four of our printing divisions. The remaining three divisions within the printing segment increased sales year over year or were flat.

Office products and office furniture revenue increased \$1.2 million or 10.1% in the six month period ended April 30, 2015 to \$12.6 million from \$11.4 million in the same period in 2014. The office products and office furniture sales increase was due to a higher volume of office furniture sales during the first six months of fiscal 2015.

Cost of Sales

Total cost of sales increased \$0.4 million or 1.6% in the six months ended April 30, 2015, to \$23.2 million from \$22.8 million in the six months ended April 30, 2014. As a percentage of total sales, cost of sales decreased slightly to 74.5% for the first six months of fiscal 2015 compared to 74.8% for the same period in 2014.

Printing cost of sales decreased 4.0% in the six months ended April 30, 2015, to \$13.8 million from \$14.4 million in the six months ended April 30, 2014. The decrease in printing cost of sales was primarily due to the decrease in printing sales. As a percentage of printing sales, cost of sales decreased to 74.6% for the first six months of 2015 compared to 75.6% for the same period in 2014.

Office products and office furniture cost of sales increased 11.2% in the six months ended April 30, 2015, to \$9.4 million from \$8.4 million for the six months ended April 30, 2014. This was the result of higher sales volume in addition to gross margin compression. The gross margin compression was due to higher dollar sales volume and lower transaction volume of office furniture sales in addition to slightly higher costs of office products and office furniture.

Operating Expenses

During the six months ended April 30, 2015, compared to the same period in 2014, SG&A expenses decreased from 27.0% in 2014 to 25.1% in 2015 as a percentage of sales. Total SG&A expenses decreased \$0.4 million. The decrease in SG&A in total dollars and as a percentage of sales was primarily reflective of a decrease in payroll, professional, insurance, depreciation and amortization, advertising, bad debt, and information technology expenses. These decreases were partially offset by higher office, repair and maintenance, travel, and other miscellaneous expenses.

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

Segment Operating Income (Loss)

The printing segment reported an operating income for the first six months of 2015 of \$0.3 million compared to an operating loss of \$(0.2) million in the first six months of 2014. This increase in operating income for the printing segment was the result of lower SG&A expenses coupled with increased gross profit margins.

The office products and office furniture segment reported operating loss of \$(0.1) million in the first six months of 2015 compared to operating loss of \$(0.3) million in the first six months of 2014. This decreased operating loss for the office products and office furniture segment is primarily the result of higher office furniture sales volume that was partially offset by lower gross profit margin.

Income (Loss) from Operations

Income from operations in the six month period ended April 30, 2015, was \$0.1 million compared to a loss from operations of \$(0.5) million in the same period of 2014. The improvement for 2015 was primarily the result of higher sales volume of office furniture and better margins and lower cost for the printing segment.

Other Income (Expense)

Other expenses, net, increased approximately \$(0.2) million in the first six months of 2015 when compared to the same period in 2014 due to a gain of a sale of a building of \$0.2 million during the second quarter of 2014. In the second quarter of 2015 the Company recognized a write-down of \$(0.1) million for leasehold improvements due to the move to a new facility of one of its office products and office furniture divisions. The increase in other expenses was partially offset by decreased interest expense on lower principal balances of the Company's debt.

Income Taxes

The Company's effective tax rate for the six months ended April 30, 2015 and 2014 was 0.0%. 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 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, 2014. The Company reassessed its previous determination regarding its valuation allowance and determined that a full valuation allowance was warranted at April 30, 2015. The amount of deferred tax asset considered realizable could be adjusted in future periods based on a multitude of factors and such adjustments may be material to the Consolidated Financial Statements.

Net (Loss)

Net loss for the six months ended April 30, 2015 was \$(0.4) million compared to a net loss of \$(0.9) million for the same period in 2014. Basic and diluted loss per share for the six months ended April 30, 2015 was \$(0.04) compared to a loss per share of \$(0.08) for the same period in 2014.

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

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 contracts; therefore, to the extent permitted by competition, it has the ability to pass through to its customers most cost increases resulting from inflation, if any. In addition, the Company is not particularly energy dependent; therefore, an increase in energy costs should not have a significant impact on the Company.

Our operating results depend on the relative strength of the economy on both a regional and national basis. Recessionary conditions applicable to the economy as a whole and specifically to our core business segments have a significant adverse impact on the Company's business.

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.

Liquidity and Capital Resources

Statement of Cash Flows

Net cash provided by operations for the six months ended April 30, 2015 was \$1.0 million compared to net cash (used in) operations of \$(1.0) million during the same period in 2014. This change is due primarily to the decrease in the net loss as well as the timing of changes in assets and liabilities; specifically accounts payable, accounts receivable, and inventory.

Net cash (used in) provided by investing activities for the six months ended April 30, 2015 was \$(0.5) million compared to \$0.1 million during the same period in 2014. The net cash provided by investing activities during the first six months of 2014 was primarily related to proceeds of \$0.5 million from the sale of fixed assets. This was mainly comprised of the sale of a building. In 2015 the Company invested more in property and equipment comparative to 2014.

Net cash (used in) financing activities for the six months ended April 30, 2015 was \$(0.6) million compared to \$(0.3) million during the same period in 2014. In 2015, the net cash used in financing activities was due to scheduled principal payments as well as a \$(0.5) million reduction in debt in April of 2015 from the payment the premium associated with the Company's October 2013 Credit Agreement. The decreases in debt were partially offset by extensions of credit used to finance large furniture jobs as well as vehicles; the former are short-term in nature and typically are paid within 120 days as the specific receivables are collected. In 2014, the net cash used in financing activities primarily related to scheduled payments of debt that were partially offset by extensions of credit associated with the purchase of vehicles and equipment.

Champion Industries, Inc. and Subsidiaries

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

Liquidity and Capital Resources

In the fourth quarter of 2013 the Previous Secured Lenders sold the outstanding credit commitments representing substantially all of the Company's debt to Big 4 Investments, LLC ("Big 4") a private company. As a result of this sale the Company simultaneously entered into a new credit facility with Big 4 under the terms of the October 2013 Credit Agreement.

The Company's October 2013 Credit Agreement matured April 1, 2015, and was subsequently extended to mature April 1, 2017 under the April 29, 2015 Extension Agreement as filed on the Company's current report on Form 8-K dated May 12, 2015. The Company intends to continue its efforts operationally after an extended period of challenges with the Previous Secured Lenders. Exclusive of the Company's debt refinancing for a two year period from April 30, 2015, the Company still faces liquidity related challenges for fiscal 2015 and beyond. The liquidity factors we face include:

- Continuation of our operating plan to rationalize and improve our cost structure.
- Continued management of our receipts and disbursements to improve days sales outstanding for trade receivables and manage our days outstanding for trade payables.
- Managing our credit relationships.
- Carefully monitor capital expenditures to assure cash flow is maximized.
- The scheduled maturity of the Company's Credit Facilities on April 1, 2017.
- Operating the Company on a working capital basis without a revolving line of credit.

As of April 30, 2015, the Company had a \$0.7 million book cash balance, compared with October 31, 2014 when the Company had a \$0.8 million book cash balance. The Company's working capital deficit as of October 31, 2014 was \$(5.9) million, and working capital at April 30, 2015 was \$2.6 million. This increase in working capital is reflective of the Company's debt refinanced to mature in April 2017 as well as improved operating performance. In addition, the Company currently has notes payable to a related party (the Company's Chairman and CEO) of \$2.5 million that matured April 1, 2015 that has been extended indefinitely while the Company evaluates the term and structure of this debt going forward. The Company determined that the classification as current debt was still warranted until such time as a formal agreement is consummated.

The Company has historically used cash generated from operating activities and debt to finance capital expenditures. Management plans to continue making required investments in equipment based on available liquidity. For the foreseeable future, including through Fiscal 2015, the Company's ability to fund operations, meet debt service requirements and make planned capital expenditures is contingent on the Company's ability to manage its working capital and to maintain sufficient trade credit availability.

Champion Industries, Inc. and Subsidiaries

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

Environmental Regulation

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

Based upon information currently available, management believes that expenditures relating to environmental compliance will not have a material impact on the financial position of the Company.

Special Note Regarding Forward-Looking Statements

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

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

The Company's debt is primarily variable rate debt and therefore the interest expense would fluctuate based on interest volatility. The Company is exposed to market risk in interest rates primarily related to our interest bearing debt based on the prime rate. The Company does not currently utilize derivative financial instruments to manage market risk.

ITEM 4. Controls and Procedures

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

(b) Changes in Internal Controls. There have been no changes in our internal controls over financial reporting that occurred during the first six months of fiscal year 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, our Company is involved in litigation relating to claims arising out of its operations in the normal course of business. We maintain insurance coverage against certain types of potential claims in an amount which we believe to be adequate, but there is no assurance that such coverage will in fact cover, or be sufficient to cover, all potential claims. The Company is involved in various legal proceedings or claims pending against the Company that if unfavorably resolved may have a material adverse effect on our financial condition or results of operations (see other disclosure herein).

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, 2014.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

a) Exhibits:

- | | | |
|--------|--|--------------------------------------|
| (31.1) | Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley act of 2002 - Marshall T. Reynolds | Exhibit 31.1 Page
Exhibit 31.1-p1 |
| (31.2) | Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley act of 2002 - Justin T. Evans | Exhibit 31.2 Page
Exhibit 31.2-p1 |
| (32) | Marshall T. Reynolds and Justin T. Evans Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley act of 2002 | Exhibit 32 Page
Exhibit 32-p1 |

Signatures

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

CHAMPION INDUSTRIES, INC.

Date: June 15, 2015

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

Date: June 15, 2015

/s/ Justin T. Evans
Justin T. Evans
Senior Vice President and Chief Financial
Officer

