

CHAMPION INDUSTRIES INC
Form 10-Q
June 08, 2007

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, 2007

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

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 April 30, 2007 |
| Common stock, \$1.00 par value per share | 9,962,913 shares |

Champion Industries, Inc.

INDEX

| | Page No. |
|--|-----------------|
| Part I. Financial Information | |
| Item 1. Financial Statements | |
| Consolidated Balance Sheets (Unaudited) | 3 |
| Consolidated Statements of Income (Unaudited) | 5 |
| Consolidated Statements of Cash Flows (Unaudited) | 6 |
| Notes to Consolidated Financial Statements | 7 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 3. Quantitative and Qualitative Disclosure About Market Risk | 20 |
| Item 4. Controls and Procedures | 20 |
| Part II. Other Information | |
| Item 1A. Risk Factors | 21 |
| Item 4. Submission of Matters to a Vote of Security Holders | 21 |
| Item 6. Exhibits | 21 |
| Signatures | 22 |

PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****Champion Industries, Inc. and Subsidiaries
Consolidated Balance Sheets**

| ASSETS | April 30, 2007 (Unaudited) | October 31, 2006 (Audited) |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | \$ 4,091,855 | \$ 5,486,577 |
| Accounts receivable, net of allowance of \$1,499,000 and \$1,558,000 | 19,994,410 | 20,638,823 |
| Inventories | 10,909,049 | 10,986,590 |
| Other current assets | 1,094,916 | 618,549 |
| Deferred income tax assets | 1,235,599 | 1,200,037 |
| Total current assets | 37,325,829 | 38,930,576 |
| Property and equipment, at cost: | | |
| Land | 2,023,375 | 2,023,375 |
| Buildings and improvements | 9,005,022 | 8,731,280 |
| Machinery and equipment | 48,177,308 | 46,757,859 |
| Furniture and fixtures | 3,696,232 | 3,620,783 |
| Vehicles | 3,427,669 | 3,453,415 |
| | 66,329,606 | 64,586,712 |
| Less accumulated depreciation | (46,968,674) | (45,541,027) |
| | 19,360,932 | 19,045,685 |
| Cash surrender value of officers' life insurance | 1,202,696 | 1,202,696 |
| Goodwill | 3,411,511 | 3,411,511 |
| Other intangibles, net of accumulated amortization | 2,950,969 | 3,125,691 |
| Other assets | 327,027 | 272,567 |
| | 7,892,203 | 8,012,465 |
| Total assets | \$ 64,578,964 | \$ 65,988,726 |

See notes to consolidated financial statements.

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

| LIABILITIES AND SHAREHOLDERS' EQUITY | April 30, 2007 (Unaudited) | October 31, 2006 (Audited) |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | \$ 4,125,451 | \$ 5,763,928 |
| Accrued payroll | 1,760,766 | 2,169,878 |
| Taxes accrued and withheld | 1,345,323 | 1,394,345 |
| Accrued income taxes | 337,024 | 1,107,837 |
| Accrued expenses | 962,704 | 925,070 |
| Current portion of long-term debt | 1,560,468 | 1,614,861 |
| Total current liabilities | 10,091,736 | 12,975,919 |
| Long-term debt, net of current portion: | | |
| Notes payable, line of credit | 213,000 | - |
| Notes payable, term | 4,051,267 | 4,219,724 |
| Other liabilities | 388,047 | 388,384 |
| Deferred income tax liabilities | 3,468,136 | 3,628,014 |
| Total liabilities | 18,212,186 | 21,212,041 |
| Shareholders' equity: | | |
| Common stock, \$1 par value, 20,000,000 shares authorized; 9,962,913 and 9,922,913 shares issued and outstanding | 9,962,913 | 9,922,913 |
| Additional paid-in capital | 22,722,680 | 22,636,620 |
| Retained earnings | 13,681,185 | 12,217,152 |
| Total shareholders' equity | 46,366,778 | 44,776,685 |
| | \$ | \$ |
| Total liabilities and shareholders' equity | 64,578,964 | 65,988,726 |

See notes to consolidated financial statements.

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

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|---|---------------------------------|---------------|-------------------------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Printing | \$ 25,295,295 | \$ 27,841,677 | \$ 51,157,662 | \$ 54,007,326 |
| Office products and office furniture | 8,518,582 | 9,578,892 | 17,595,548 | 19,704,951 |
| Total revenues | 33,813,877 | 37,420,569 | 68,753,210 | 73,712,277 |
| Cost of sales: | | | | |
| Printing | 17,752,603 | 19,155,034 | 35,990,905 | 37,705,574 |
| Office products and office furniture | 5,869,953 | 6,753,428 | 12,219,956 | 13,897,176 |
| Total cost of sales | 23,622,556 | 25,908,462 | 48,210,861 | 51,602,750 |
| Gross profit | 10,191,321 | 11,512,107 | 20,542,349 | 22,109,527 |
| Selling, general and administrative expenses | 7,769,311 | 8,727,944 | 15,899,643 | 17,441,611 |
| Hurricane and relocation costs, net of recoveries | - | (43,733) | - | (301,693) |
| Income from operations | 2,422,010 | 2,827,896 | 4,642,706 | 4,969,609 |
| Other income (expense): | | | | |
| Interest income | 12,842 | 7,383 | 18,073 | 14,125 |
| Interest expense | (152,162) | (168,828) | (286,066) | (340,570) |
| Other | 14,858 | 3,042 | 18,880 | 2,928 |
| | (124,462) | (158,403) | (249,113) | (323,517) |
| Income before income taxes | 2,297,548 | 2,669,493 | 4,393,593 | 4,646,092 |
| Income tax (expense) | (907,806) | (1,091,079) | (1,735,691) | (1,922,000) |
| Net income | \$ 1,389,742 | \$ 1,578,414 | \$ 2,657,902 | \$ 2,724,092 |
| Earnings per share | | | | |
| Basic | \$ 0.14 | \$ 0.16 | \$ 0.27 | \$ 0.28 |
| Diluted | \$ 0.14 | \$ 0.16 | \$ 0.26 | \$ 0.28 |
| Weighted average shares outstanding: | | | | |
| Basic | 9,962,000 | 9,746,000 | 9,950,000 | 9,746,000 |
| Diluted | 10,133,000 | 9,947,000 | 10,121,000 | 9,889,000 |
| Dividends per share | \$ 0.06 | \$ 0.05 | \$ 0.12 | \$ 0.10 |

See notes to consolidated financial statements.

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

| | Six Months Ended April 30, | |
|---|----------------------------|--------------|
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net income | \$ 2,657,902 | \$ 2,724,092 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 1,853,982 | 2,069,677 |
| (Gain) loss on sale of assets | (1,269) | 11,686 |
| Deferred income taxes | (195,440) | (270,583) |
| Increase in deferred compensation | 893 | 1,787 |
| Bad debt expense | 177,687 | 357,269 |
| Hurricane and relocation costs, net of recoveries | - | (301,693) |
| Changes in assets and liabilities: | | |
| Accounts receivable | 466,726 | (3,430,251) |
| Inventories | 77,541 | 260,370 |
| Other current assets | (476,367) | (418,467) |
| Accounts payable | (287,752) | 528,686 |
| Accrued payroll | (409,112) | (211,824) |
| Taxes accrued and withheld | (49,022) | 352,338 |
| Income taxes | (770,813) | 103,832 |
| Accrued expenses | 37,634 | 117,026 |
| Other liabilities | (1,230) | (2,052) |
| Net cash provided by operating activities | 3,081,360 | 1,891,893 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (1,934,269) | (1,109,538) |
| Proceeds from sales of property | 78,796 | 67,713 |
| Goodwill additions | (1,350,725) | - |
| Other assets | (60,461) | (56,735) |
| Net cash used in investing activities | (3,266,659) | (1,098,560) |
| Cash flows from financing activities: | | |
| Borrowings on line of credit | 7,877,000 | 7,517,000 |
| Payments on line of credit | (7,664,000) | (8,105,000) |
| Proceeds from term debt | 1,675,633 | 80,010 |
| Principal payments on long-term debt | (2,030,247) | (1,273,132) |
| Proceeds from exercise of stock options | 126,060 | - |
| Dividends paid | (1,193,869) | (974,588) |
| Net cash used in financing activities | (1,209,423) | (2,755,710) |
| Net decrease in cash and cash equivalents | (1,394,722) | (1,962,377) |
| Cash and cash equivalents, beginning of period | 5,486,577 | 3,661,622 |
| Cash and cash equivalents, end of period | \$ 4,091,855 | \$ 1,699,245 |

See notes to consolidated financial statements.

Champion Industries, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
April 30, 2007

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, 2006, and related notes thereto contained in Champion Industries, Inc.’s Form 10-K dated January 15, 2007. 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, 2006 was derived from our audited financial statements.

In June 2006, the FASB Emerging Issues Tax Force (EITF) issued EITF 06-3 “*How Sales Taxes Collected from Customers and Remitted to Government Authorities Should be Presented in the Income Statement*” (That is, Gross Versus Net Presentation) to clarify diversity in practice on the presentation of different types of taxes in the financial statements. The task force concluded that, for taxes within the scope of the issue, a company may adopt a policy of presenting taxes either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charges for the taxes from the taxing authority. If taxes subject to EITF 06-3 are significant, a company is required to disclose its accounting policy for presenting taxes and the amounts of such taxes that are recognized on a gross basis. The guidance in this consensus is effective for the first interim reporting period beginning after December 15, 2006 (the second quarter of our fiscal year 2007). We adopted EITF 06-3 on February 1, 2007 and we record sales tax on a net basis. The adoption of EITF 06-03 did not have a material impact on our results of operations, financial position or cash flow.

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 171,000 and 171,000 shares for the three and six months ended April 30, 2007 and 201,000 and 143,000 shares for the three and six months ended April 2006.

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:

| | April 30, 2007 | October 31, 2006 |
|-----------------|---------------------------|-----------------------------|
| Printing: | | |
| Raw materials | \$ 2,135,079 | \$ 2,121,843 |
| Work in process | 1,811,748 | 1,800,517 |
| Finished goods | 4,431,635 | 4,404,162 |

| | | |
|--------------------------------------|----------------------|---------------|
| Office products and office furniture | 2,530,587 | 2,660,068 |
| | \$ 10,909,049 | \$ 10,986,590 |

7

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

4. Long-Term Debt

Long-term debt consisted of the following:

| | April 30, 2007 | October 31, 2006 |
|--|---------------------|---------------------|
| Secured term note payable | \$ 394,704 | \$ 452,386 |
| Installment notes payable to banks | 5,217,031 | 5,382,199 |
| | 5,611,735 | 5,834,585 |
| Less current portion | 1,560,468 | 1,614,861 |
| Long-term debt, net of current portion | \$ 4,051,267 | \$ 4,219,724 |

The Company has an unsecured revolving line of credit with a bank for borrowings to a maximum of \$10,000,000 with interest payable monthly at the prime rate of interest. The line of credit expires in July 2010 and contains certain restrictive financial covenants. The Company had outstanding borrowings under this facility of approximately \$213,000 and \$0 at April 30, 2007 and October 31, 2006.

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 April 30, 2007 and October 31, 2006.

There was \$132,000 and \$0 non-cash financing activities for the six months ended April 30, 2007 and 2006.

5. Shareholders' Equity

The Company paid a dividend of six cents per share on March 26, 2007 to stockholders of record on March 9, 2007. Also, the Company declared a dividend of six cents per share to be paid on June 18, 2007 to stockholders of record on June 8, 2007.

The Company issued 40,000 shares for the exercise of stock options during the first half of 2007, for total proceeds from stock options exercised of approximately \$126,000.

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

6. Commitments and Contingencies

As of April 30, 2007 the Company had contractual obligations in the form of leases and debt as follows:

| Contractual Obligations | Payments Due by Fiscal Year | | | | | |
|---------------------------------|-----------------------------|--------------|--------------|------------|------------|--------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
| Non-cancelable operating leases | \$ 553,833 | \$ 930,247 | \$ 532,666 | \$ 255,056 | \$ 157,042 | \$ 2,428,844 |
| Revolving line of credit | - | - | - | 213,000 | - | 213,000 |
| Term debt | 768,387 | 1,503,866 | 1,048,875 | 1,821,598 | 469,009 | 5,611,735 |
| Equipment purchase obligations | 1,614,400 | - | - | - | - | 1,614,400 |
| | \$ 2,936,620 | \$ 2,434,113 | \$ 1,581,541 | 2,289,654 | \$ 626,051 | \$ 9,867,979 |

The Company also entered into purchase commitments for printing equipment with manufacturers for \$2.2 million. As a result of these commitments, the Company paid the manufacturers deposits of approximately \$500,000 and received an associated trade-in allowance of \$100,000 as of April 30, 2007.

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 outstanding employee stock options vested immediately in the year granted, the initial adoption of this standard had no effect on the Company's financial statements. However, the Company will be required to expense the fair value of the employee stock options when future options are granted or when existing options are modified or repurchased pursuant to the provisions of SFAS No. 123R.

The Company did not issue any employee stock options for the three and six months ended April 30, 2007 and 2006.

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

8. Acquisitions

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 ending 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.

9. Accounting for Costs Associated with Exit or Disposal Activities and Impact of Hurricane Katrina

During the second quarter of 2005, the Company relocated its Chapman Printing Company Charleston division to a facility leased by the Company as a result of the acquisition of Syscan. The Company is currently evaluating its facility needs in Charleston, West Virginia and the future use, if any, of this building.

The Company moved its Dallas operations to an existing facility in Baton Rouge, Louisiana in August 2005. The Company is currently evaluating its options regarding this facility.

On August 29, 2005, Hurricane Katrina made landfall and subsequently caused extensive flooding and destruction along the coastal areas of the Gulf of Mexico, including New Orleans and other communities in Louisiana and Mississippi in which Champion conducts business. Operations in many of the Company's markets were disrupted by both the evacuation of large portions of the population as well as damage and/or lack of access to the Company's operating facility in New Orleans.

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

The Company has filed insurance claims related to both actual and contingent losses. The Company received an advance to claim from an insurance company of \$300,000 in February 2006. A second advance to claim of \$200,000 was received in April 2006 and a check in the amount of \$78,000 in full settlement of any and all claims was received in May 2006. The Company recorded all of the payments as insurance recoveries for the year ended October 31, 2006. There was no Hurricane Katrina costs or recoveries recorded in 2007.

The Company has categorized the costs associated with Hurricane Katrina as follows:

- 1.) Personnel costs representing costs associated with payment of personnel primarily in New Orleans during the time period the city was essentially shut down;
- 2.) Plant costs represent all facilities, equipment and inventory charges incurred as a result of the hurricane using the most current available information;
- 3.) The allowance for doubtful accounts charge represents accounts receivable specifically reserved based on a collectibility analysis performed by the Company using the most current available information for customers located in the New Orleans area at that time;
- 4.) The relocation costs represent costs of closing the New Orleans production facility and associated costs of moving equipment.

The following table summarizes the cumulative costs incurred as of April 30, 2007 relating to Hurricane Katrina.

| | |
|--|-------------------|
| Personnel | \$ 88,423 |
| Plant | 745,035 |
| Allowance for doubtful accounts | 208,310 |
| Moving and relocation costs | 255,215 |
| Total pre-tax hurricane expense | 1,296,983 |
| Lease settlement recovery | 75,583 |
| Insurance recoveries | 577,677 |
| Total recoveries | 653,260 |
| Cumulative impact of Hurricane Katrina, net | \$ 643,723 |

The Company recorded costs of \$1,020,999 for the three months ended October 31, 2005 and costs of \$275,984 and recoveries of \$653,260 for the year ended October 31, 2006 relating to Hurricane Katrina.

The costs and recoveries associated with Hurricane Katrina are reflected in the consolidated statements of operations in the category "Hurricane and relocation costs, net of recoveries" and are part of the printing segment.

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

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

| 2007 Quarter 2 | Printing | Office Products & Furniture | Total |
|-------------------------------------|-----------------|--|---------------|
| Revenues | \$ 28,525,389 | \$ 10,594,012 | \$ 39,119,401 |
| Elimination of intersegment revenue | (3,230,094) | (2,075,430) | (5,305,524) |
| Consolidated revenues | \$ 25,295,295 | \$ 8,518,582 | \$ 33,813,877 |
| Operating income | 1,993,241 | 428,769 | 2,422,010 |
| Depreciation & amortization | 845,341 | 53,244 | 898,585 |
| Capital expenditures | 889,688 | 15,127 | 904,815 |
| Identifiable assets | 54,811,408 | 9,767,556 | 64,578,964 |
| Goodwill | 2,226,837 | 1,184,674 | 3,411,511 |
| 2006 Quarter 2 | Printing | Office Products & Furniture | Total |
| Revenues | \$ 32,014,163 | \$ 11,838,155 | \$ 43,852,318 |
| Elimination of intersegment revenue | (4,172,486) | (2,259,263) | (6,431,749) |
| Consolidated revenues | \$ 27,841,677 | \$ 9,578,892 | \$ 37,420,569 |
| Operating income | 2,220,966 | 606,930 | 2,827,896 |
| Depreciation & amortization | 979,864 | 39,672 | 1,019,536 |
| Capital expenditures | 793,197 | 81,920 | 875,117 |
| Identifiable assets | 51,534,191 | 10,280,382 | 61,814,573 |
| Goodwill | 1,774,344 | 286,442 | 2,060,786 |

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

| 2007 Year to Date | Office Products | | |
|-------------------------------------|------------------------|------------------------|---------------|
| | Printing | & Furniture | Total |
| Revenues | \$ 57,524,913 | \$ 21,823,952 | \$ 79,348,865 |
| Elimination of intersegment revenue | (6,367,251) | (4,228,404) | (10,595,655) |
| Consolidated revenues | \$ 51,157,662 | \$ 17,595,548 | \$ 68,753,210 |
| Operating income | 3,732,890 | 909,816 | 4,642,706 |
| Depreciation & amortization | 1,749,604 | 104,378 | 1,853,982 |
| Capital expenditures | 2,021,603 | 44,430 | 2,066,033 |
| Identifiable assets | 54,811,408 | 9,767,556 | 64,578,964 |
| Goodwill | 2,226,837 | 1,184,674 | 3,411,511 |

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

| 2006 Year to Date | Office Products | | Total |
|-------------------------------------|-----------------|---------------|---------------|
| | Printing | & Furniture | |
| Revenues | \$ 61,702,192 | \$ 24,300,439 | \$ 86,002,631 |
| Elimination of intersegment revenue | (7,694,866) | (4,595,488) | (12,290,354) |
| Consolidated revenues | \$ 54,007,326 | \$ 19,704,951 | \$ 73,712,277 |
| Operating income | 3,668,714 | 1,300,895 | 4,969,609 |
| Depreciation & amortization | 1,994,962 | 74,715 | 2,069,677 |
| Capital expenditures | 1,005,440 | 104,098 | 1,109,538 |
| Identifiable assets | 51,534,191 | 10,280,382 | 61,814,573 |
| Goodwill | 1,774,344 | 286,442 | 2,060,786 |

A reconciliation of total segment revenues and of total segment operating income to consolidated income before income taxes, for the three and six months ended April 30, 2007 and 2006, is as follows:

| | Three months | | Six months | |
|---|---------------|---------------|---------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Total segment revenues | \$ 39,119,401 | \$ 43,852,318 | \$ 79,348,865 | \$ 86,002,631 |
| Elimination of intersegment revenue | (5,305,524) | (6,431,749) | (10,595,655) | (12,290,354) |
| Consolidated revenue | \$ 33,813,877 | \$ 37,420,569 | \$ 68,753,210 | \$ 73,712,277 |
| Operating income: | | | | |
| Total segment operating income | \$ 2,422,010 | \$ 2,827,896 | \$ 4,642,706 | \$ 4,969,609 |
| Interest income | 12,842 | 7,383 | 18,073 | 14,125 |
| Interest expense | (152,162) | (168,828) | (286,066) | (340,570) |
| Other income | 14,858 | 3,042 | 18,880 | 2,928 |
| Consolidated income before income taxes | \$ 2,297,548 | \$ 2,669,493 | \$ 4,393,593 | \$ 4,646,092 |
| Identifiable assets: | | | | |
| Total segment identifiable assets | \$ 64,578,964 | \$ 61,814,573 | \$ 64,578,964 | \$ 61,814,573 |
| Elimination of intersegment assets | — | — | — | — |
| Total consolidated assets | \$ 64,578,964 | \$ 61,814,573 | \$ 64,578,964 | \$ 61,814,573 |

Champion Industries, Inc. and Subsidiaries

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

Results of Operations

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

Percentage of Total Revenues

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|--|---------------------------------|-------|-------------------------------|-------|
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| Printing | 74.8% | 74.4% | 74.4% | 73.3% |
| Office products and office furniture | 25.2 | 25.6 | 25.6 | 26.7 |
| Total revenues | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of sales: | | | | |
| Printing | 52.5 | 51.2 | 52.3 | 51.2 |
| Office products and office furniture | 17.4 | 18.0 | 17.8 | 18.8 |
| Total cost of sales | 69.9 | 69.2 | 70.1 | 70.0 |
| Gross profit | 30.1 | 30.8 | 29.9 | 30.0 |
| S Selling, general and administrative expenses | 22.9 | 23.3 | 23.1 | 23.7 |
| Hurricane and relocation costs, net of recoveries | 0.0 | (0.1) | 0.0 | (0.4) |
| Income from operations | 7.2 | 7.6 | 6.8 | 6.7 |
| Interest income | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest expense | (0.5) | (0.5) | (0.4) | (0.4) |
| Other income | 0.1 | 0.0 | 0.0 | 0.0 |
| Income before taxes | 6.8 | 7.1 | 6.4 | 6.3 |
| Income tax (expense) | (2.7) | (2.9) | (2.5) | (2.6) |
| Net income | 4.1% | 4.2% | 3.9% | 3.7% |

The following table is a reconciliation of net income as reported to core net income, which is defined as generally accepted accounting principles (GAAP) net income adjusted for insurance recoveries, net of expenses associated with Hurricane Katrina. The Company believes that events associated with Hurricane Katrina require additional disclosure and therefore, the Company has disclosed additional non-GAAP financial measures in an effort to make the quarterly financial statements more useful to investors.

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|--|------------------------------|--------------|----------------------------|--------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income | \$ 1,390,000 | \$ 1,578,000 | \$ 2,658,000 | \$ 2,724,000 |
| Insurance recoveries, net of expenses | - | 26,000 | - | 176,000 |
| Core net income | \$ 1,390,000 | \$ 1,552,000 | \$ 2,658,000 | \$ 2,548,000 |

Champion Industries, Inc. and Subsidiaries

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

Three Months Ended April 30, 2007 Compared to Three Months Ended April 30, 2006

Revenues

Total revenues decreased 9.6% in the second quarter of 2007 compared to the same period in 2006 from \$37.4 million to \$33.8 million. Printing revenue decreased 9.1% in the second quarter of 2007 to \$25.3 million from \$27.8 million in the second quarter of 2006. Office products and office furniture revenue decreased 11.1% in the second quarter of 2007 to \$8.5 million from \$9.6 million in the second quarter of 2006. The decrease in printing sales was associated with lower sales at several of the Company's commercial plants that operate primarily in the sheetfed arena. The drop in office products and office furniture sales was primarily due to lower furniture sales associated with contract furniture projects.

Cost of Sales

Total cost of sales decreased 8.8% in the second quarter of 2007 to \$23.6 million from \$25.9 million in the second quarter of 2006. Printing cost of sales in the second quarter of 2007 decreased \$1.4 million over the prior year and increased as a percentage of printing sales from 68.8% in 2006 to 70.2% in 2007. The printing gross margin dollar decrease resulted from lower sales volume and higher cost of goods sold as percentage of sales resulting from increased labor and overhead costs as a percent of sales. Office products and office furniture cost of sales decreased in 2007 from 2006 levels due to decreased sales which were coupled with lower cost of goods sold as a percentage of sales of 70.5% in 2006 to 68.9% in 2007, thus representing improved gross margin percent in the office products and office furniture segment.

Operating Expenses

In the second quarter of 2007, selling, general and administrative expenses decreased on a gross dollar basis to \$7.8 million from \$8.7 million in 2006, a decrease of \$960,000 or 11.0%. As a percentage of total sales, the expenses decreased on a quarter to quarter basis in 2007 to 22.9% from 23.3% in 2006. The decrease in selling, general and administrative expenses is primarily the result of reduced payroll and payroll related costs due in part to both lower sales and the Company's cost reduction strategy.

On August 29, 2005, Hurricane Katrina made landfall and subsequently caused extensive flooding and destruction along the coastal areas of the Gulf of Mexico, including New Orleans and other communities in Louisiana and Mississippi in which Champion conducts business. Operations in many of the Company's markets were disrupted by both the evacuation of large portions of the population as well as damage and/or lack of access to the Company's operating facility in New Orleans.

The Company has filed insurance claims related to both actual and contingent losses. The Company received an advance to claim payment from an insurance company of \$300,000 in February 2006 and final settlement claims of \$278,000 in April and May 2006. The Company recorded the \$300,000 payment as an insurance recovery and related receivable at January 31, 2006. The Company recorded additional charges of approximately \$42,000 in the first quarter of 2006 associated with Hurricane Katrina. The Company received a second advance to claim check in April of 2006 in the amount of \$200,000 and a full and final settlement of any and all claims check of \$78,000 in May of 2006. The Company recorded the aggregate amount of these checks as an insurance recovery and the \$78,000 as a related receivable at April 30, 2006. The Company incurred additional charges of \$234,000, primarily related to additional inventory valuation reserves and costs associated with relocation in the second quarter of 2006. During the

fourth quarter of 2006, the Company successfully negotiated an early lease termination related to its New Orleans location resulting in Katrina related recoveries of approximately \$76,000. There were no Hurricane Katrina costs or recoveries recorded in 2007.

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 decreased in the second quarter of 2007 to \$2.4 million from \$2.8 million in the second quarter of 2006. This decrease is the result of lower sales and gross profit and gross profit as a percent of sales, partially offset by a decrease in selling, general and administrative expenses (S,G & A) and a decrease in S,G & A as a percent of sales. Other expense (net), decreased approximately \$34,000 from 2006 to 2007 primarily due to decreases in interest expense resulting from lower average borrowings.

Income Taxes

The Company's effective income tax rate was 39.5% for the second quarter of 2007 and 40.9% for the second quarter of 2006. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate and is partially impacted by the geographic profitability mix of our operations, anticipated effective rate, selling related expenses and other permanent differences.

Net Income

Net income for the second quarter of 2007 was \$1,390,000 compared to \$1,578,000 in the second quarter of 2006. Basic and diluted earnings per share for the three months ended April 30, 2007 and 2006 were \$0.14 and \$0.16. The Company reported core net income of \$1,390,000 or \$0.14 per share on a basic and diluted basis for the three months ended April 30, 2007 and core net income of \$1,552,000 or \$0.16 per share on a basic and diluted basis for the three months ended April 30, 2006. Core net income does not include the insurance recovery, net of expenses. (See Explanatory Table in "Results of Operations" section.)

Six Months Ended April 30, 2007 Compared to Six Months Ended April 30, 2006

Revenues

Total revenues decreased 6.7% in the first six months of 2007 compared to the same period in 2006 to \$68.8 million from \$73.7 million. Printing revenue decreased 5.3% in the six month period ended April 30, 2007 to \$51.2 million from \$54.0 million in the same period in 2006. Office products and office furniture revenue decreased 10.7% in the six month period ended April 30, 2007 to \$17.6 million from \$19.7 million in the same period in 2006. The decrease in printing sales was primarily due to lower second quarter sales at several of the Company's commercial plants that operate primarily in the sheetfed arena. The decrease in office products and office furniture sales was primarily due to lower furniture sales associated with contract furniture projects.

Cost of Sales

Total cost of sales decreased 6.6% in the six months ended April 30, 2007 to \$48.2 million from \$51.6 million in the six months ended April 30, 2006. Printing cost of sales decreased 4.6% in the six months ended April 30, 2007 to \$36.0 million from \$37.7 million in the six months ended April 30, 2006. The decrease in printing cost of sales was primarily due to the decrease in printing sales noted above partially offset by lower gross margin percent resulting from labor and overhead thus less absorption. Office products and office furniture cost of sales decreased 12.1% in the six months ended April 30, 2007 to \$12.2 million from \$13.9 million in the six months ended April 30, 2006 and decreased as a percent of sales from 70.5% in 2006 to 69.4% in 2007. The decrease in office products and office furniture cost of sales is attributable to a decrease in office products and office furniture sales coupled with a decrease

in office products and office furniture cost of sales as a percent of sales. Thus representing improved gross margin percent in the office products and office furniture segment.

Operating Expenses

During the six months ended April 30, 2007 compared to the same period in 2006, selling, general and administrative expenses decreased as a percentage of sales to 23.1% from 23.7%. Total selling, general and administrative expenses (S,G & A) decreased \$1.5 million. The decrease in selling, general and administrative expenses is primarily due to reduced payroll and payroll related costs due in part to both lower sales and the Company's cost reduction strategy.

Champion Industries, Inc. and Subsidiaries

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

On August 29, 2005, Hurricane Katrina made landfall and subsequently caused extensive flooding and destruction along the coastal areas of the Gulf of Mexico, including New Orleans and other communities in Louisiana and Mississippi in which Champion conducts business. Operations in many of the Company's markets were disrupted by both the evacuation of large portions of the population as well as damage and/or lack of access to the Company's operating facility in New Orleans.

The Company has filed insurance claims related to both actual and contingent losses. The Company received an advance to claim payment from an insurance company of \$300,000 in February 2006 and final settlement claims of \$278,000 in April and May 2006. The Company recorded the \$300,000 payment as an insurance recovery and related receivable at January 31, 2006. The Company recorded additional charges of approximately \$42,000 in the first quarter of 2006 associated with Hurricane Katrina. The Company received a second advance to claim check in April of 2006 in the amount of \$200,000 and a full and final settlement of any and all claims check of \$78,000 in May of 2006. The Company recorded the aggregate amount of these checks as an insurance recovery and the \$78,000 as a related receivable at April 30, 2006. The Company incurred additional charges of \$234,000, primarily related to additional inventory valuation reserves and costs associated with relocation in the second quarter of 2006. During the fourth quarter of 2006, the Company successfully negotiated an early lease termination related to its New Orleans location resulting in Katrina related recoveries of approximately \$76,000. There were no Hurricane Katrina costs or recoveries recorded in 2007.

Income from Operations and Other Income and Expenses

Income from operations decreased 6.6% in the six month period ended April 30, 2007 to \$4.6 million from \$5.0 million in the same period of 2006. This decrease is the result of decreased gross profit contribution due to decreased sales partially offset by decreases in S,G&A and a reduction of S,G&A as a percent of sales in 2007 compared to 2006. Other expense decreased \$74,000 to \$249,000 in 2007 from \$324,000 in 2006. This decrease is primarily due to a \$55,000 decrease in interest expense resulting from lower average borrowings in 2007 compared to 2006. In addition, in 2006 the Company recorded Hurricane Katrina insurance recoveries, net of expenses of \$302,000 as a component of income from operations. There were no Hurricane Katrina costs or recoveries recorded in 2007.

Income Taxes

The Company's effective income tax rate was 39.5% for the six months ended April 30, 2007, down from 41.4% in the same period of 2006. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate and is partially impacted by the geographic profitability mix of our operations, anticipated effective rate, selling related expenses and other permanent differences.

Net Income

Net income for the first six months of 2007 decreased 2.4% due to the reasons discussed above. Basic and diluted earnings per share for the six months ended April 30, 2007 was \$0.27 and \$0.26 compared to 2006, at \$0.28. The Company reported core net income of \$2,658,000 or \$0.27 and \$0.26 per share on a basic and diluted basis for the six months ended April 30, 2007 and core net income of \$2,548,000 or \$0.26 per share on a basic and diluted basis for the six months ended April 30, 2006. Core net income does not include the insurance recovery, net of expenses. (See Explanatory Table in "Results of Operations" section.)

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.

Champion Industries, Inc. and Subsidiaries

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

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

Net cash provided by operations for the six months ended April 30, 2007, was \$3.1 million compared to net cash provided by operations of \$1.9 million during the same period in 2006. This change in net cash from operations is due primarily to timing changes in assets and liabilities primarily related to a decrease in accounts receivable in 2007 compared to an increase in accounts receivable in 2006.

Net cash used in investing activities for the six months ended April 30, 2007 was \$3.3 million compared to \$1.1 million during the same period in 2006. The net cash used in investing activities during the first six months of 2007 primarily related to the payment of the contingent purchase price for the Syscan acquisition, capital expenditures in 2007 for the build out of the facility occupied by Champion Output Solutions and the purchase of equipment and vehicles. The net cash used in investing activities during the first six months of 2006, primarily relates to equipment and vehicle purchases including mail service equipment upgrades, software purchases in the office products and office furniture segment, press additions and upgrades and numerous information technology related expenditures.

Net cash used in financing activities for the six months ended April 30, 2007 was \$1.2 million compared to \$2.8 million during the same period in 2006. This change is primarily due proceeds from term debt of \$1.7 million in 2007 compared to \$80,000 in 2006. The proceeds from the term debt was primarily related to the contingent purchase price payment for the Syscan acquisition.

The Company's off balance sheet arrangements at April 30, 2007 relate to the Syscan acquisition and are associated with a put option from 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 April 30, 2007 was \$27.2 million, an increase of \$1.3 million from October 31, 2006. Management believes that working capital and operating ratios remain at acceptable levels.

The Company entered into purchase commitments for printing equipment with manufacturers for \$2.2 million. As a result of these commitments, the Company paid the manufacturers deposits of approximately \$500,000 and received an associated trade-in allowance of \$100,000 as of April 30, 2007.

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.

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, 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 3. Quantitative and Qualitative Disclosure About Market Risk

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

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, 2006.

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of shareholders held March 19, 2007, the following matters were voted upon:

- a) Fixing the number of directors at seven (7) and election of the following nominees as directors, with votes “for” and “withheld,” as well as broker non-votes, as follows:

| Director | Votes “For” | Votes “Withheld” | Broker Non-votes |
|-----------------------|-------------|------------------|------------------|
| Louis J. Akers | 9,339,862 | 30,038 | -0- |
| Philip E. Cline | 9,283,615 | 86,285 | -0- |
| Harley F. Mooney, Jr. | 9,286,937 | 82,963 | -0- |
| A. Michael Perry | 9,343,780 | 26,120 | -0- |
| Marshall T. Reynolds | 9,094,259 | 275,641 | -0- |
| Neal W. Scaggs | 9,318,537 | 51,363 | -0- |
| Glenn W. Wilcox, Sr. | 9,343,537 | 26,363 | -0- |

Item 6. Exhibits

- a) Exhibits:

| | |
|--|-----------------------------------|
| (10.1) \$324,408 term promissory note with commercial security agreement and business loan agreement between Champion Industries, Inc. and First Bank of Charleston, Inc. dated as of March 23, 2007 | Exhibit 10.1 Page Exhibit 10.1-p1 |
| (10.2) \$1,000,000 revolving line of credit between Stationers, Inc. and First Sentry Bank dated as of April 7, 2007 | Exhibit 10.2 Page Exhibit 10.2-p1 |
| (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 | Exhibit 31.2 Page Exhibit 31.2-p1 |

Section 302 of the
Sarbanes-Oxley act of 2002 -
Todd R. Fry

(31.3) Principal Operating Officer Exhibit 31.3 Page Exhibit 31.3-p1
Certification Pursuant to
Section 302 of the
Sarbanes-Oxley act of 2002 -
Toney K. Adkins

(32) Marshall T. Reynolds, Todd Exhibit 32 Page Exhibit 32-p1
R. Fry and Toney K. Adkins
Certification Pursuant to 18
U.S.C. Section 1350 as
Adopted Pursuant to Section
906 of the Sarbanes-Oxley
act of 2002

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 8, 2007

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

Date: June 8, 2007

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

Date: June 8, 2007

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