CHAMPION INDUSTRIES INC
Form 10-K/A
May 25, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K/A
Amendment No. 1

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

For the Fiscal Year Ended October 31, 2011
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

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 First Avenue P.O. Box 2968 Huntington, West Virginia (Address of Principal Executive Offices)	25728 (Zip Code)

Registrant's telephone number, including area code: (304) 528-2700

Securities registered pursuant to Section 12(b) of Act: Common Stock, $1.00 par value | The NASDAQ Stock Market, LLC (Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes oNo x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes oNo x

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 xNo o

Indicate by check mark whether the registrant (1) 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 xNo o

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
o

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 definitions of “large accelerated filer ", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o   Accelerated filer o

Non-accelerated filter o   Smaller reporting company x

(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 oNo x

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As of April 30, 2011 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $7,500,965 based on the closing price as reported on the National Association of Securities Dealers Automated Quotation System Global Market.

The outstanding common stock of the Registrant at the close of business on January 2, 2012 consisted of 11,299,528 shares of Common Stock, $1.00 par value.

Total number of pages including cover page: 26

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Registrant's definitive proxy statement dated February 17, 2012 with respect to its Annual Meeting of Shareholders to be held on March 19, 2012 are incorporated by reference into Part III, Items 10-14. Exhibit Index located in Part IV Item 15.

Explanatory Note

Champion Industries, Inc. ("the Company") is filing this amendment No. 1 ("Amendment No. 1") to its Annual Report on Form 10-K for the fiscal year ended October 31, 2011 (the "Form 10-K"), as filed with the Securities and Exchange Commission on January 30, 2012, to reflect the following additional disclosure.

- Revised disclosure under Part I introductory paragraph to Form 10-K.
- Enhanced disclosure regarding critical accounting policies associated with deferred tax assets within Item 7- Management's discussion and analysis of financial condition and results of operations ("MD&A")
- Enhanced discussion and analysis in the MD&A liquidity and capital resources section to address a comprehensive management assessment of the Company's debt situation.

We are filing this Amendment No.1 based on comments received from the U.S. Securities and Exchange Commission resulting from a review of the Company's Form 10-K for the fiscal year ended October 31, 2011.

For convenience purposes the Company has included these three sections below and has included the changes or additions within these sections. In addition, within this Amendment No. 1 the Company has included the introductory paragraph and Item 7 MD&A in its entirety.

- Revised disclosure under Part I introductory paragraph to Form 10-K.

The Company experienced net losses in 2011 and 2009, due primarily to non-cash charges for impairment and other intangible assets associated with the newspaper segment of the Company. In addition, the Company has paid down approximately $37.9 million or 44.3% of the initial balance of syndicated outstanding debt of $85.5 million primarily incurred in the acquisition of the Herald-Dispatch. This debt was paid down during a significant economic downturn and a severe secular decline within our printing and newspaper segments. Our ability to operate is dependent on our ability to complete a restructuring or refinancing of the existing debt, due to the Company's inability to satisfy short term obligations with currently available funds, primarily related to the maturity of its revolving credit obligations as well as the potential for acceleration of substantially all of its term debt due to the Company's inability to remain in compliance with certain financial covenants. See "Risk Factors" and Note 3 of the Notes to Consolidated Financial Statements.

- Enhanced disclosure regarding critical accounting policies associated with deferred tax assets within Item 7- Management's discussion and analysis of financial condition and results of operations (MD&A)

The Company has assessed the available positive and negative evidence to determine if it is more likely than not that sufficient future taxable income will be available to utilize the Company's existing deferred tax assets. The

Company believes that it is more likely than not that available evidence exists to support the conclusion that the current valuation allowance is sufficient to absorb any deferred tax assets which will not be utilized. The current valuation allowance is primarily related to certain net operating loss carryforwards associated with Section 382 limitations as well as certain state net operating loss carryforwards. The amount of the deferred tax asset considered to be realizable may be reduced in the event facts or circumstances regarding the Company's future profitability change or the Company is subject to material changes in its current prospects for operating performance. The Company may also be impacted by a continuing or deepening of the recessionary conditions currently being experienced by the Company and the Company may be unable to identify appropriate actions to improve performance to offset the impact of these conditions.

The Company believes that the accounting estimate related to income taxes is a "critical accounting estimate" because the underlying assumptions used for the allowance can change from period to period and could potentially cause a material impact to the Consolidated Financial Statements. Management has discussed the development and selection of this estimate with the audit committee of the board of directors, and the board has, in turn, reviewed the disclosure and its relation to MD&A.

- Enhanced discussion and analysis in the MD&A liquidity and capital resources section to address a comprehensive management assessment of the Company's debt situation.

The Company incurred substantial indebtedness as a result of the acquisition of The Herald-Dispatch in September of 2007. The country entered a recession in December of 2007 and the residual effects of the recession have continued within the newspaper and printing segments of the Company. The debt was structured as a cash flow credit, which typically indicates that the primary repayment source for debt will be income from operations in lieu of a collateral based loan. The Company has continued to service its debt and has made every scheduled payment of principal and interest, including during various periods, default interest. In addition, the Company has paid substantial sums for fees to the secured lenders as well as to various advisors pursuant to applicable credit and credit related agreements. The Company has paid approximately $37.9 million in principal through January 30, 2012. Thus, the Company has demonstrated the ability to generate cash flow and has continued to service its debt commitments under the most difficult conditions in recent history.

The Company is currently operating under the provisions of a Limited Forbearance Agreement which expires April 30, 2012 resulting from the Company's inability to remain in compliance with certain financial covenants established in the applicable credit agreement. The Company has continued to operate for extended periods both in default and under forbearance agreements in recent years as it navigates its way through the continued challenges and residual effects of the global economic crisis. The Company believes that there has been a fundamental shift in the way in which financial institutions, in general, evaluate cash flow credits and that the amount of leverage in which the financial institutions are willing to lend has decreased generally over the last several years. In addition, two of the Company's operating segments, specifically the printing and newspaper segments have declined both internally and on a macro basis both during the recession and post-recession. Therefore, even though the Company has reduced its borrowings in accordance with contractually scheduled amortizations, the secured lenders have expressed a desire to have lower leverage associated with various earnings measures related to funded indebtedness. Therefore, three dynamics have faced the Company: lower earnings, two operating segments that have faced secular hurdles and what the Company believes to be a changed credit culture regarding cash flow type loans.

The Company is unable to definitively predict the course of action which the Company's secured lenders will take to address its pending maturities as well as the expiration of the Limited Forbearance Agreement. This is due in part to the fact the Company's secured lenders are composed of six different lenders who may have different agendas, metrics and requirements and as such there may be in certain cases six different points of view as to the direction of the Company's credit. The Company is able to affirmatively state that it has: (1) made every scheduled payment of principal and interest; (2) exhibited an ability to operate under difficult credit environments and shown a history of negotiating mutually acceptable resolutions to the Credit Agreement in recent years; (3) shown an ability to maintain positive cash flow from operating activities in recent years; (4) shown an ability to scale down its operating model to adapt to a changing economic landscape; (5) shown an ability to implement its plans and initiatives and to receive guidance from nationally recognized advisors; (6) received $5.0 million in funds from the Company's CEO, who has deposited an additional $500,000 with the Administrative Agent; (7) implemented substantial cost savings initiatives, including but not limited to facility consolidations, personnel reductions, employee benefit reductions and numerous other cost savings initiatives. In short, the Company believes it has exhibited numerous positive attributes and resilience in working through these difficult conditions.

In the event the Company's secured lenders determine that they will not renew or extend the Company's Credit Agreement under terms that are mutually acceptable to the Lenders and the Company, then the secured lenders under the provisions of the Credit Agreement would have the right to enforce their liens, which could result in a sale of the Company's assets, including a liquidation or change in control of the Company. The Company believes that due to the fact that its operations and prospects are dependent in a large part on the continued efforts of Marshall T. Reynolds, a sale of such assets in whole or in part may not yield a full return of the debt principal to the Secured

Lenders due to the cash flow nature of the loan from inception to date. The Company is working in good faith with its investment bankers to identify reasonably acceptable options and alternatives that include transaction alternatives, which would make reasonable sense for all parties. If the secured lenders ultimately feel that they could maximize their returns by foreclosing on the Company’s assets, which the Company does not believe have adequate collateral coverage, then it would be the prerogative of the secured lenders to do so, in the event the Company is unable to identify an alternative financing source, which may be challenging in the current economic climate. The Company ultimately believes the best course of action is for the Company to continue to negotiate in good faith with the secured lenders and work with its external advisory group to define a path to deleverage the Company in a prudent, deliberate fashion while serving its core customer base and striving to the best of its ability to assure that all obligations are satisfied to both secured and unsecured creditors.

In accordance with Rule 12b-15 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), this Amendment No. 1 sets forth below the complete text of Part I introductory paragraph and Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations”, as amended. In addition, new Certifications of our Principal Executive Officer and Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Exchange Act are filed as exhibits to this Amendment No 1.

This Amendment No. 1 does not include any additional changes, nor does it update any disclosures to reflect developments since the Form 10-K. In particular, any forward-looking statements included in this Amendment No. 1 represent management's view as of the filing date of the Form 10-K. Accordingly, this Amendment No. 1 should be read in conjunction with the Form 10-K.

This Amendment No. 1 contains forward-looking statements within the meaning of Section 21E of the Exchange Act. Actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause such actual results to differ materially from those set forth in these forward-looking statements are included in Part I, Item 1A, “Risk Factors” beginning on page 17 of the Form 10-K.

PART I

The Company experienced net losses in 2011 and 2009, due primarily to non-cash charges for impairment and other intangible assets associated with the newspaper segment of the Company. In addition, the Company has paid down approximately $37.9 million or 44.3% of the initial balance of syndicated outstanding debt of $85.5 million primarily incurred in the acquisition of the Herald-Dispatch. This debt was paid down during a significant economic downturn and a severe secular decline within our printing and newspaper segments. Our ability to operate is dependent on our ability to complete a restructuring or refinancing of the existing debt, due to the Company’s inability to satisfy short term obligations with currently available funds, primarily related to the maturity of its revolving credit obligations as well as the potential for acceleration of substantially all of its term debt due to the Company’s inability to remain in compliance with certain financial covenants. See "Risk Factors" and Note 3 of the Notes to Consolidated Financial Statements.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company is a commercial printer, business forms manufacturer and office products and office furniture supplier in regional markets of the United States of America, east of the Mississippi River. The Company also publishes The Herald-Dispatch daily newspaper in Huntington, West Virginia, with a total daily and Sunday circulation of approximately 24,000 and 30,000 respectively. The Company has grown through strategic acquisitions and internal growth. Through such growth, the Company has realized regional economies of scale, operational efficiencies, and exposure of its core products to new markets. The Company has acquired fifteen printing companies, eight office products and office furniture companies, one company with a combined emphasis on both printing and office products and office furniture, a paper distribution division (which was subsequently sold in 2001) and a daily newspaper since its initial public offering on January 28, 1993.

The Company's net revenues consist primarily of sales of commercial printing, business forms, tags, other printed products, document output solutions including rendering, inserting and mailing, office supplies, office furniture, data products and office design services as well as newspaper revenues primarily from advertising and circulation. The Company recognizes revenues when products are shipped or ownership is transferred and when services are rendered to the customer. Newspaper advertising revenues are recognized, net of agency commissions, in the period when advertising is printed or placed on web sites. Circulation revenues are recognized when purchased newspapers are distributed. The Company's revenues are subject to seasonal fluctuations caused by variations in demand for its products.

The Company's cost of sales primarily consists of raw materials, including paper, ink, pre-press supplies and purchased office supplies, furniture and data products, and manufacturing costs including direct labor, indirect labor and overhead. Significant factors affecting the Company's cost of sales include the costs of paper in printing, office supplies and the newspaper operations, costs of labor and other raw materials.

The Company's operating costs consist of selling, general and administrative expenses. These costs include salaries, commissions and wages for sales, customer service, accounting, administrative and executive personnel, rent, utilities, legal, audit, information systems equipment costs, software maintenance and depreciation.

CRITICAL ACCOUNTING POLICIES INVOLVING SIGNIFICANT ESTIMATES

The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements included in Item 15 of this Form 10-K. The discussion and analysis of the financial statements and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The following critical accounting policies affect the Company's more significant judgments and estimates used in the preparation of the Consolidated Financial Statements. There can be no assurance that actual results will not differ from those estimates.

Restatement of Prior Year: During the fourth quarter of 2011, the Company determined that its historical methodology for accruing for compensated absences related to vacation did not properly reflect a liability for vacation partially earned during the fiscal year and anticipated to be utilized by the employee in the subsequent year. The Company determined that the balances should be corrected in the earliest period presented by correcting any individual amounts in the financial statements. The periods impacted by this correction commence with periods earlier than any periods presented in this annual report. Therefore, the Company will correct this by recording a cumulative effect of this amount in the earliest period presented as a decrease in retained earnings of $328,000 and an increase in accrued expenses in the amount of $547,000 and an increase in deferred tax assets of $219,000. This adjustment did not have a material impact on net income for any period presented in this annual report. Accordingly, the Consolidated Financial Statements for periods ended October 31, 2007, through October 31, 2010, have been restated to reflect this adjustment. In accordance with ASC Topic 250, Accounting Changes and Error Corrections, we evaluated the materiality of the error from a qualitative and quantitative perspective and concluded that the error was not material to any prior period. Further, we evaluated the materiality of the error on the results of operations for the fiscal years end October 31, 2007, through October 31, 2010, and concluded that the error was not material for the year or the trend of financial results for any period presented.

Asset Impairment: The Company is required to test for asset impairment relating to property and equipment whenever events or changes in circumstances indicate that the carrying value of an asset might not be recoverable. The Company performs an impairment analysis when indicators of impairment are present. If such indicators are present, an analysis of the sum of the future expected cash flows from the Company's asset, undiscounted and without interest charges is calculated. If it is less than the carrying value, an asset impairment must be recognized in the financial statements. The amount of the impairment is the difference between the fair value of the asset and the carrying value of the asset.

The Company believes that the accounting estimate related to asset impairment is a "critical accounting estimate" because it is highly susceptible to change from period to period, because it requires management to make assumptions about future cash flows over future years and because the impact of recognizing impairment could have a significant effect on operations. Management's assumptions about future cash flows require significant judgment because actual operating levels have fluctuated in the past and are expected to continue to do so in the future. Management has discussed the development and selection of this critical accounting estimate with the audit committee of our board of directors and the audit committee has reviewed the Company's disclosure relating to it in this management, discussion and analysis (MD&A).

In accordance with GAAP, a two-step impairment test is performed on goodwill. In the first step, a comparison is made of the estimated fair value of a reporting unit to its carrying value. If the carrying value of a reporting unit exceeds the estimated fair value, the second step of the impairment test is required.

In connection with our annual impairment testing of goodwill and other intangible assets conducted in the fourth quarter of 2011, we recorded a charge of $8.7 million ($5.4 million, net of deferred tax benefit) for impairment of the value of the goodwill and other intangible assets, which resulted from the 2007 acquisition of The Herald-Dispatch daily newspaper in Huntington, WV. This charge resulted in impairment charges of trademark and masthead of $6.3 million and goodwill of $2.4 million. The associated deferred tax benefit of these charges approximated $3.3 million. There were no impairment charges as a result of our annual impairment testing in 2010.

In connection with our annual impairment testing of goodwill and other intangible assets conducted in the fourth quarter of 2009, we recorded a charge of $41.1 million ($25.5 million, net of deferred tax benefit) for impairment of the value of the goodwill and other intangible assets, which also resulted from the 2007 acquisition of The Herald-Dispatch daily newspaper in Huntington, WV. This charge resulted in impairment charges of trademark and masthead of $8.5 million, subscriber base asset of $2.2 million, advertiser base asset of $6.8 million and goodwill of $23.6 million. The associated deferred tax benefit of these charges approximated $15.6 million.

The Company determined that it should perform impairment testing of goodwill and intangible assets during the fourth quarter of 2009 and 2011, due, in part, to declines in our stock price, increased volatility in operating results and declines in market transactions in the industry. The valuation methodology utilized to estimate the fair value of the newspaper operating segment was based on both the market and income approach. The Company then undertook the next step in the impairment testing process by determining the fair value of assets and liabilities within this reporting unit. The implied fair values of goodwill and other intangibles for this reporting unit was less than their carrying amounts based on the analysis by the Company and with assistance of a third party valuation specialist, and therefore an impairment charge was taken. The goodwill and other intangible assets will continue to be amortized for tax purposes over its remaining life in accordance with applicable internal revenue service standards. Management has discussed the development of these estimates with the audit committee of the board of directors. Additionally, the board of directors has reviewed this disclosure and its relation to this MD&A.

Revenue Recognition: Revenues are recognized when products are shipped or ownership is transferred and when services are rendered to customers. The Company acts as a principal party in sales transactions, assumes title to products and assumes the risks and rewards of ownership including risk of loss for collection, delivery or returns. The Company typically recognizes revenue for the majority of its products upon shipment to the customer and transfer of title. Under agreements with certain customers, custom forms may be stored by the Company for future delivery. In these situations, the Company may receive a logistics and warehouse management fee for the services provided. In these cases, delivery and bill schedules are outlined with the customer and product revenue is recognized when manufacturing is complete and the product is received into the warehouse, title transfers to the customer, the order is invoiced and there is reasonable assurance of collectability. Since the majority of products are customized, product returns are not significant. Therefore, the Company records sales on a gross basis. Advertising revenues are recognized, net of agency commissions, in the period when advertising is printed or placed on websites. Circulation revenues are recognized when purchased newspapers are distributed. Amounts received from customers in advance of revenue recognized are recorded as deferred revenue. The deferred revenue associated with The Herald-Dispatch approximated $614,000 and $591,000 at October 31, 2011 and 2010. Revenue generally is recognized net of any taxes collected from customers and subsequently remitted to government authorities. The costs of delivering finished goods to customers are recorded as shipping and handling costs and included in cost of sales. Shipping and handling costs that are included in the price of the product are included in net sales.

Income Taxes: Provisions for income taxes currently payable and deferred income taxes are based on the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

The Company has assessed the available positive and negative evidence to determine if it is more likely than not that sufficient future taxable income will be available to utilize the Company’s existing deferred tax assets. The Company believes that it is more likely than not that available evidence exists to support the conclusion that the current valuation allowance is sufficient to absorb any deferred tax assets which will not be utilized. The current valuation allowance is primarily related to certain net operating loss carryforwards associated with Section 382 limitations as well as certain state net operating loss carryforwards. The amount of the deferred tax asset considered to be realizable may be reduced in the event facts or circumstances regarding the Company’s future profitability change or the Company is subject to material changes in its current prospects for operating performance. The Company may also be impacted by a continuing or deepening of the recessionary conditions currently being experienced by the Company and the Company may be unable to identify appropriate actions to improve performance to offset the impact of these conditions.

The Company believes that the accounting estimate related to income taxes is a “critical accounting estimate” because the underlying assumptions used for the allowance can change from period to period and could potentially cause a material impact to the Consolidated Financial Statements. Management has discussed the development and selection of this estimate with the audit committee of the board of directors, and the board has, in turn, reviewed the disclosure and its relation to MD&A.

Allowance for Doubtful Accounts: The Company encounters risks associated with sales and the collection of the associated accounts receivable. As such, the Company records a monthly provision for accounts receivable that are considered to be uncollectible. In order to calculate the appropriate monthly provision, the Company primarily utilizes a historical rate of accounts receivables written off as a percentage of total revenue. This historical rate is applied to the current revenues on a monthly basis. The historical rate is updated periodically based on events that may change the rate, such as a significant increase or decrease in collection, performance and timing of payments as well as the calculated total exposure in relation to the allowance. Periodically, the Company compares the identified credit risks with the allowance that has been established using historical experience and adjusts the allowance accordingly.

The Company believes that the accounting estimate related to the allowance for doubtful accounts is a “critical accounting estimate” because the underlying assumptions used for the allowance can change from period to period and could potentially cause a material impact to the income statement and working capital. Management has discussed the development and selection of this estimate with the audit committee of the board of directors, and the board has, in turn, reviewed the disclosure and its relation to this MD&A.

During 2011, 2010 and 2009, $270,000, $370,000, and $876,000 of bad debt expense was incurred and the allowance for doubtful accounts was $933,000, $1,297,000, and $1,353,000 of October 31, 2011, 2010 and 2009. The actual write-offs for the periods were $633,000, $426,000, and $1,375,000 during 2011, 2010 and 2009. General economic conditions and specific geographic and customer concerns are major factors that may affect the adequacy of the allowance and may result in a change in the annual bad debt expense.

The following discussion and analysis presents the significant changes in the financial position and results of operations of the Company and should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto included elsewhere herein.

RESULTS OF OPERATIONS

The following table sets forth for the periods indicated information derived from the Company's Consolidated Statements of Operations, including certain information presented as a percentage of total revenues.

	Year Ended October 31, ($ In thousands)					
	2011		2010		2009	
Revenues:						
Printing	$ 79,092	61.5%	$ 80,971	62.3%	$ 88,990	63.0%
Office products and office furniture	34,546	26.9	33,438	25.7	35,874	25.4
Newspaper	14,883	11.6	15,525	12.0	16,394	11.6
Total revenues	128,521	100.0	129,934	100.0	141,258	100.0
Cost of sales & newspaper operating costs:						
Printing	58,601	45.6	59,351	45.7	66,856	47.3
Office products and office furniture	24,521	19.1	23,633	18.2	24,859	17.6
Newspaper cost of sales & operating costs	8,590	6.7	8,327	6.4	8,715	6.2
Total cost of sales & newspaper operating costs	91,712	71.4	91,311	70.3	100,430	71.1
Gross profit	36,809	28.6	38,623	29.7	40,828	28.9
Selling, general and administrative expenses	31,229	24.3	31,609	24.3	37,126	26.2
	9,369	7.3	1,641	1.3	41,334	29.3

Restructuring / asset impairment costs						
Hurricane and relocation costs, net of recoveries	-	-	-	-	(39)	(0.0)
(Loss) income from operations	(3,789)	(3.0)	5,373	4.1	(37,593)	(26.6)
Other income (expense):						
Interest income	-	-	-	-	3	0.0
Interest expense - related party	(65)	(0.0)	(82)	(0.1)	-	-
Interest expense	(3,824)	(3.0)	(5,332)	(4.1)	(5,185)	(3.7)
Gain on early extinguishment of debt from a related party	1,338	1.0	-	-	-	-
Other income	99	0.1	1,013	0.8	(476)	(0.3)
(Loss) income before income taxes	(6,241)	(4.9)	972	0.7	(43,251)	(30.6)
Income tax benefit (expense)	2,265	1.8	(484)	(0.3)	15,730	11.1
Net (loss) income	$ (3,976)	(3.1)%	$ 488	0.4%	$ (27,521)	(19.5)%

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Year Ended October 31, 2011 Compared to Year Ended October 31, 2010

Revenues

Consolidated net revenues were $128.5 million for the year ended October 31, 2011 compared to $129.9 million in the prior fiscal year. This change represents a decrease in revenues of approximately $1.4 million, or 1.1%. Printing revenues decreased by $1.9 million or 2.3% from $81.0 million in 2010 to $79.1 million in 2011. The Company believes the decrease in printing revenues was primarily due to the continued impact of the global economic crisis. Office products and office furniture revenue increased $1.1 million or 3.3% from $33.4 million in 2010 to $34.5 million in 2011. The increase in revenues for the office products and office furniture segment was primarily attributable to higher sales of office furniture. In 2011, newspaper revenues were composed of approximately $11.2 million in advertising revenue and $3.7 million in circulation revenue compared to the same period in 2010, in which the newspaper revenues were composed of approximately $11.7 million in advertising revenue and $3.8 million in circulation revenues. Newspaper revenues decreased $0.6 million or 4.1% in fiscal 2011 compared with fiscal 2010. The reduction in newspaper revenues is primarily associated with a decrease in advertising revenues, which we believe is reflective, in part, of macro industry dynamics coupled with the residual effect of the global economic crisis.

Cost of Sales

Total cost of sales for the year ended October 31, 2011 was $91.7 million, compared to $91.3 million in the previous year. This change represented an increase of $0.4 million, or 0.4%, in cost of sales. Printing cost of sales decreased $0.7 million to $58.6 million in 2011 compared to $59.4 million in 2010. Printing cost of sales as a percentage of printing sales increased to 74.1% as a percent of printing sales in 2011 from 73.3% in 2010. This increase was primarily the result of higher material costs as a percent of printing sales partially offset by improved labor and overhead absorption. Office products and office furniture cost of sales increased $0.9 million to $24.5 million in 2011 from $23.6 million in 2010. The increase in office products and office furniture cost of sales is attributable to an increase in office products and office furniture sales. The increase in office products and office furniture cost of sales as a percent of office products and office furniture sales is primarily reflective of higher office furniture costs as a percent of office furniture sales. Newspaper cost of sales and operating costs increased $0.3 million to $8.6 million in 2011 from $8.3 million in 2010. Newspaper cost of sales and operating costs as a percentage of newspaper sales were 57.7% in 2011 and 53.6% in 2010. The primary contributor to the increase was higher newsprint prices in 2011 compared to 2010.

.Operating Expenses and Income

Selling, general and administrative (S,G&A) expenses decreased $0.4 million to $31.2 million in 2011 from $31.6 million in 2010. S,G&A as a percentage of net sales represented 24.3% of net sales in 2011 and 2010. In 2010, the Company incurred costs associated with the Company's successful defense of a legal action and the accrual of settlement costs associated with an OSHA action with combined costs of approximately $0.4 million.

In connection with our annual impairment testing of goodwill and other intangible assets conducted in the fourth quarter of 2011, we recorded a charge of $8.7 million ($5.4 million, net of deferred tax benefit) for impairment of the value of the goodwill and other intangible assets, which resulted from the 2007 acquisition of The Herald-Dispatch daily newspaper in Huntington, WV. This charge resulted in impairment charges of trademark and masthead of $6.3 million and goodwill of $2.4 million. The associated deferred tax benefit of these charges approximated $3.3 million. There were no impairment charges as a result of our annual impairment testing in 2010.

The valuation methodology utilized to estimate the fair value of the newspaper operating segment was analyzed by the Company with assistance from an independent third party valuation specialist ("Valuation Specialist") in 2011 utilizing both the market and income approach. The Valuation Specialist considered three approaches to value referred to as the income approach, the market approach, and the cost approach. The income approach was based on a discounted cash flow methodology, in which expected future free net cash flows to invested capital are discounted to present value, using an appropriate after-tax weighted average cost of capital. The market approach using a guideline company analysis weighs empirical evidence from shares of comparable companies sold in minority transactions on stock exchanges and merger and acquisition analysis, which analyses sales of newspapers in control transactions. The cost approach was not employed due to the fact it was not deemed relevant. The implied fair values of goodwill and other intangibles for this reporting unit was less than the carrying amount for goodwill and trademark and masthead by $8.7 million ($5.4 million net of deferred tax benefit), and therefore an impairment charge in this amount was taken. The goodwill and other intangible assets will continue to be amortized for tax purposes over their remaining life in accordance with applicable Internal Revenue Service standards.

The valuation methodology utilized to estimate the fair value of the printing, and office products and office furniture operating segment was analyzed by the Company with assistance from the Valuation Specialist utilizing both the market and income approach. The income approach was based off a discounted cash flow methodology, in which expected future free net cash flows to invested capital are discounted to present value, using an appropriate after-tax weighted average cost of capital. The market approach using a guideline company analysis weighs empirical evidence from shares of comparable companies sold in minority transactions on stock exchanges and merger and acquisition analysis, which analyses sales of companies control transactions. The fair value exceeded the carrying value for both the printing and office products and office furniture segment. Therefore, there were no impairment indicators identified by the Company to proceed to step two of the impairment test.

In 2011 and 2010, the Company recorded charges related to a restructuring and profitability enhancement plan of approximately $0.6 million and $1.8 million. This plan was implemented to effectuate certain key initiatives and was a key provision to the Second Amendment to the Credit Agreement among the Company and its Lenders. These actions were taken to comply with the provisions and targeted covenants of the Second Agreement to the Credit Agreement and to address the impact of the global economic crisis on the Company. The charges incurred in 2011 also related to revisions in targeted cash flows related to sublease rentals and revised estimates of remaining facility related costs. The Company believes the economic environment has contributed to the inability to achieve sublease rentals as originally forecasted. The Company incurred these additional charges related to revised estimates for aggregate facility exposure costs including rent, taxes, insurance and maintenance related costs. The aggregate charges associated with this restructuring adjustment totaled approximately $0.6 million in 2011. The costs primarily related to excess facility and maintenance costs primarily associated with operating leases, inventory costs and costs associated with streamlining production and personnel. The Company may incur additional costs in future periods to address the ongoing and fluid nature of the economic crisis, and may incur costs pursuant to certain initiatives being reviewed in accordance with the provisions of the Limited Forbearance Agreement. The amount of future charges is currently not estimable by the Company.

The implementation of the restructuring and profitability enhancement plan should not have a material impact on the Company's future liquidity position. The costs associated with the restructuring and profitability enhancement plan are primarily recorded in the restructuring charges line item as part of operating income. Inventory is recorded as a component of the cost of sales and aggregated approximately $30,000 and $0.2 million for 2011 and 2010.

The Company also incurred asset impairment charges in 2011 in the printing segment from property, plant and equipment related to a specialized printing press of approximately $109,000, or $66,000 net of tax or $0.01 per share on a basic and diluted basis, related to a final determination of a remote likelihood of future functionality and market utilization of this press's capability.

Segment Operating Income (loss)

The printing segment reported flat operating income of $0.2 million for 2011 and 2010. These results were also reflective of a reduction of approximately $1.2 million in restructuring costs in 2011 from 2010 levels. Total SG&A decreased $0.4 million. Of the total SG&A reductions, approximately $0.2 million of those reductions were attributable to the printing segment. These cost reductions were partially offset by lower printing sales and lower gross profit margins.

The office products and office furniture segment reported operating profits of $2.4 million, in 2011, compared to $2.1 million, in 2010. This represented an increase in profitability of $0.3 million or 16.6%. This increase is primarily the result of an increase in gross margin dollar contribution due to higher sales and a decrease in SG&A expenses partially offset by a lower gross profit percent.

The newspaper segment reported a reduction in operating income from $3.1 million, in 2010, to an operating loss of $(6.4) million, in 2011. The decrease in newspaper operating profit was primarily attributable to a pre-tax impairment charge associated with goodwill and other intangible assets aggregating $8.7 million. The results also reflected 4.1% decrease in newspaper revenue. The newspaper revenue reduction was primarily attributable to a reduction in advertising revenues, primarily related to retail accounts.

Other Income (Expense)

Other expense decreased approximately $1.9 million from $4.4 million in 2010 to $2.5 million in 2011. The Company recorded other income in the first quarter of 2010 resulting from an interest rate swap agreement, in the amount of $0.2 million, net of tax, due to ineffectiveness in a cash flow hedge. The interest swap was re-designated as a cash flow hedge in the second quarter of 2010 and upon expiration of the swap derivative on October 29, 2010, $0.7 million or $0.4 million, net of tax was reclassified into earnings.

The Company exchanged a $3,000,000 Unsecured Promissory Note payable to Marshall T. Reynolds, its CEO, together with $147,875 in accrued interest for 1,311,615 shares of common stock in the third quarter of 2011. This transaction resulted in a pre-tax gain on early extinguishment of debt of approximately $1.3 million. The Company believes the CEO's rationale for such an exchange included numerous factors. The Company believes these factors related both to his dual role as CEO and largest shareholder. The CEO obtained a majority control in the stock as a result of this transaction. The CEO did not have access to the principal or interest related to the subordinated debt and therefore the common stock had greater economic upside potential when compared to a fixed rate of return associated with subordinated debt. We believe the limited liquidity of the Company's common stock would make it very difficult to purchase a significant quantity of shares without substantially increasing the cost of the purchase. The CEO has historically been an equity investor and not a debt investor and therefore we believe the CEO believed there was inherently potentially greater upside in equity versus subordinated debt albeit with greater risk. Finally, we believe the CEO believed that eliminating subordinated debt would improve the financial position of the Company.

Interest expense decreased approximately $1.5 million primarily due to lower borrowings and lower rates associated with the Second Amendment to the Credit Agreement and expiration of a LIBOR Swap Agreement.

Income Taxes

Income taxes as a percentage of income before taxes were a benefit of 36.3% in 2011 compared with an expense of (49.8%) in 2010. The effective income tax rate in 2011 and 2010 approximates the combined federal and state, net of federal benefit, statutory income tax rate.

Net (Loss) Income

For the reasons set forth above, the Company recorded a net loss of $(4.0) million in 2011 compared with net income of $0.5 million in 2010.

Year Ended October 31, 2010 Compared to Year Ended October 31, 2009

Revenues

Consolidated net revenues were $129.9 million for the year ended October 31, 2010 compared to $141.3 million in the prior fiscal year. This change represents a decrease in revenues of approximately $11.3 million, or 8.0%. Printing revenues decreased by $8.0 million or 9.0% from $89.0 million in 2009 to $81.0 million in 2010. Office products and office furniture revenue decreased $2.4 million or 6.8% from $35.9 million in 2009 to $33.4 million in 2010. The decrease in revenues for the office products and office furniture segment was primarily attributable to lower sales in both office products and office furniture. In 2010, newspaper revenues were composed of approximately $11.7 million in advertising revenue and $3.8 million in circulation revenue compared to the same period in 2009, in which the newspaper revenues were composed of approximately $12.5 million in advertising revenue and $3.9 million in circulation revenues. Newspaper revenues decreased $0.9 million or 5.3% in fiscal 2010 compared with fiscal 2009. The reduction in newspaper revenues is primarily associated with a decrease in advertising revenues. The Company believes the decrease in sales across its three primary revenue segments was primarily due to the continued impact of the global economic crisis.

Cost of Sales

Total cost of sales for the year ended October 31, 2010 was $91.3 million, compared to $100.4 million in the previous year. This change represented a decrease of $9.1 million, or 9.1%, in cost of sales. Printing cost of sales decreased $7.5 million to $59.4 million in 2010 compared to $66.9 million in 2009. Printing cost of sales as a percentage of printing sales decreased to 73.3% as a percent of printing sales in 2010 from 75.1% in 2009. This decrease was primarily the result of improved labor absorption and lower material costs as a percent of sales, partially offset by higher overhead absorption costs. Office products and office furniture cost of sales decreased $1.2 million to $23.6 million in 2010 from $24.9 million in 2009. The decrease in office products and office furniture cost of sales is attributable to a decrease in office products and office furniture sales. The increase in office products and office furniture cost of sales as a percent of office products and office furniture sales is primarily reflective of higher office furniture costs as a percent of office furniture sales. Newspaper cost of sales and operating cost decreased $0.4 million to $8.3 million in 2010 from $8.7 million in 2009. Newspaper cost of sales and operating costs as a percentage of newspaper sales were 53.6% in 2010 and 53.2% in 2009.

Operating Expenses and Income

Selling, general and administrative (S,G&A) expenses decreased $5.5 million to $31.6 million in 2010 from $37.1 million in 2009. S,G&A as a percentage of net sales represented 24.3% of net sales in 2010 compared with 26.2% of net sales in 2009. This decrease in S,G&A costs is primarily due to cost reduction initiatives implemented by the Company in response to the global economic crisis. The decrease in SG&A was partially offset by various costs associated with the Company's successful defense of a legal action and the accrual of settlement costs associated with an OSHA action with combined costs of approximately $0.4 million.

In connection with our annual impairment testing of goodwill and other intangible assets conducted in the fourth quarter of 2009, we recorded a charge of $41.1 million ($25.5 million, net of deferred tax benefit) for impairment of the value of the goodwill and other intangible assets, which resulted from the 2007 acquisition of The Herald-Dispatch daily newspaper in Huntington, WV. This charge resulted in impairment charges of trademark and masthead of $8.5 million, subscriber base asset of $2.2 million, advertiser base asset of $6.8 million and goodwill of $23.6 million, the associated deferred tax benefit of these charges approximated $15.6 million. There were no impairment charges as a result of our annual impairment testing in 2010.

The valuation methodology utilized to estimate the fair value of the newspaper operating segment was based on both the market and income approach. The income approach was based on a discounted cash flow methodology, in which expected future free net cash flows to invested capital are discounted to present value, using an appropriate after-tax weighted average cost of capital. The market approach using a guideline company analysis weighs empirical evidence from shares of comparable companies sold in minority transactions on stock exchanges and merger and acquisition analysis, which analyses sales of newspapers in control transactions. The implied fair value of goodwill and other intangibles for this reporting unit was less than the carrying amount by $41.1 million ($25.5 million net of deferred tax benefit), and therefore an impairment charge in this amount was taken. The goodwill and other intangible assets will continue to be amortized for tax purposes over their remaining life in accordance with applicable Internal Revenue Service standards.

The Company has other reporting units with goodwill. The Company evaluated these reporting units during the fourth quarters of 2010 and 2009, and while the estimated fair value of these reporting units declined from 2008, the estimated fair value of each of our other reporting units exceeded carrying values in 2010 and 2009. As a result, no additional testing or impairment charges were necessary.

In 2010, the Company recorded charges related to a restructuring and profitability enhancement plan of approximately $1.8 million. This plan was implemented to effectuate certain key initiatives and was a key provision to the Second Amendment to the Credit Agreement among the Company and its Lenders. These actions were taken to comply with the provisions and targeted covenants of the Second Agreement to the Credit Agreement and to address the impact of the global economic crisis on the Company. The costs primarily related to excess facility and maintenance costs primarily associated with operating leases, inventory costs and costs associated with streamlining production and personnel. The Company may incur additional costs in future periods to address the ongoing and fluid nature of the economic crisis. The amount of future charges is currently not estimable by the Company.

The implementation of the restructuring and profitability enhancement plan should not have a material impact on the Company's future liquidity position. The costs associated with the restructuring and profitability enhancement plan are primarily recorded in the restructuring charges line item as part of operating income. Inventory is recorded as a component of the cost of sales and aggregated approximately $0.2 million.

During 2010 and 2009, the U.S. recession had a negative impact on the Company's operations across multiple segment lines. The newspaper operating segment reflected lower operating revenues in both advertising and circulation. In response to this difficult operating environment the Company initiated a cost reduction plan and eliminated 24 employee positions, or approximately 15% of the workforce, at the Champion Publishing subsidiary in 2009.

The Company also incurred asset impairment charges in 2009 from property, plant and equipment of approximately $0.2 million, or $0.1 million net of tax or $0.01 per share on a basic and diluted basis.

Segment Operating Income (loss)

The printing segment reported improved profitability in 2010 with operating income increasing to $0.2 million from a loss of $(1.2) million, in 2009. This improvement was driven by the cost reduction initiatives implemented by the Company to reduce overhead and to rationalize the Company’s cost structure in light of the current economic climate primarily related to the sales compression experienced by the Company in recent periods. Therefore, of the $5.5 million of SG&A reductions, approximately $3.3 million of these reductions were attributable to the printing segment. These cost reductions were partially offset by lower sales, which were partially mitigated by improved gross profit percent.

The office products and office furniture segment reported operating profits of $2.1 million, in 2010, compared to $2.3 million, in 2009. This represented a decrease in profitability of $0.2 million or 10%. This decrease is primarily the result of lower gross margin dollar contribution, due to both lower sales and gross profit percent compression attributable to lower margins on office furniture sales in 2010.

The newspaper segment reported a substantial improvement in operating income from a loss of $(38.7) million in 2009, to a profit of $3.1 million, in 2010. The operating loss in 2009 was primarily the result of a pre-tax impairment charge associated with goodwill and other intangible assets aggregating $41.1 million, thus reducing operating income in 2009.

Other Income (Expense)

Other expense decreased approximately $1.3 million from $5.7 million in 2009 to $4.4 million in 2010. This was primarily due to charges in 2009 related to an interest rate swap agreement which was reclassified from other comprehensive income to other expense as a result of ineffectiveness in a cash flow hedge of approximately $0.6 million, net of tax in 2009. The Company recorded other income in the first quarter of 2010 resulting from this hedging arrangement, in the amount of $0.2 million, net of tax. The interest swap was re-designated as a cash flow hedge in the second quarter of 2010 and upon expiration of the swap derivative on October 29, 2010, $0.7 million or $0.4 million, net of tax was reclassified into earnings.

Interest expense increased approximately $230,000 from higher interest rates associated with the Administrative Agent of the Company's credit facility instituting the default rate and eliminating the LIBOR borrowing expense option for most of the first six months of 2010 and a higher applicable margin for the remainder of 2010 concurrent with the Second Amendment and various deferred financing and other interest related expenses associated with this debt. Concurrent with the Second Amendment to Credit Agreement the Company was permitted to reinstate the LIBOR borrowing option and the new applicable margin was set below the default rate in effect prior to the Second Amendment to Credit Agreement.

Income Taxes

Income taxes as a percentage of income before taxes were an expense of (49.8%) in 2010 compared with a benefit of 36.4% in 2009. The effective income tax rate in 2010 and 2009 approximates the combined federal and state, net of federal benefit, statutory income tax rate.

Net Income (Loss)

For the reasons set forth above, net income increased to $0.5 million in 2010 from a loss of $(27.5) million in 2009.

LIQUIDITY AND CAPITAL RESOURCES

The Company incurred substantial indebtedness as a result of the acquisition of The Herald-Dispatch in September of 2007. The country entered a recession in December of 2007 and the residual effects of the recession have continued within the newspaper and printing segments of the Company. The debt was structured as a cash flow credit, which typically indicates that the primary repayment source for debt will be income from operations in lieu of a collateral based loan. The Company has continued to service its debt and has made every scheduled payment of principal and interest, including during various periods, default interest. In addition, the Company has paid substantial sums for fees to the secured lenders as well as to various advisors pursuant to applicable credit and credit related agreements. The Company has paid approximately $38.0 million in principal through January 30, 2012. Thus, the Company has demonstrated the ability to generate cash flow and has continued to service its debt commitments under the most difficult conditions in recent history.

The Company is currently operating under the provisions of a Limited Forbearance Agreement which expires April 30, 2012 resulting from the Company's inability to remain in compliance with certain financial covenants established in the applicable credit agreement. The Company has continued to operate for extended periods both in default and under forbearance agreements in recent years as it navigates its way through the continued challenges and residual effects of the global economic crisis. The Company believes that there has been a fundamental shift in the way in which financial institutions, in general, evaluate cash flow credits and that the amount of leverage in which the financial institutions are willing to lend has decreased generally over the last several years. In addition, two of the Company's operating segments, specifically the printing and newspaper segments have declined both internally and on a macro basis both during the recession and post-recession. Therefore, even though the Company has reduced its borrowings in accordance with contractually scheduled amortizations, the secured lenders have expressed a desire to have lower leverage associated with various earnings measures related to funded indebtedness. Therefore, three dynamics have faced the Company: lower earnings, two operating segments that have faced secular hurdles and what the Company believes to be a changed credit culture regarding cash flow type loans.

The Company is unable to definitively predict the course of action which the Company's secured lenders will take to address its pending maturities as well as the expiration of the Limited Forbearance Agreement. This is due in part to the fact the Company's secured lenders are composed of six different lenders who may have different agendas, metrics and requirements and as such there may be in certain cases six different points of view as to the direction of the Company's credit. The Company is able to affirmatively state that it has: (1) made every scheduled payment of principal and interest; (2) exhibited an ability to operate under difficult credit environments and shown a history of negotiating mutually acceptable resolutions to the Credit Agreement in recent years; (3) shown an ability to maintain positive cash flow from operating activities in recent years; (4) shown an ability to scale down its operating model to adapt to a changing economic landscape; (5) shown an ability to implement its plans and initiatives and to receive guidance from nationally recognized advisors; (6) received $5.0 million in funds from the Company's CEO, who has deposited an additional $500,000 with the Administrative Agent; (7) implemented substantial cost savings initiatives, including but not limited to facility consolidations, personnel reductions, employee benefit reductions and numerous other cost savings initiatives. In short, the Company believes it has exhibited numerous positive attributes and resilience in working through these difficult conditions.

In the event the Company's secured lenders determine that they will not renew or extend the Company's Credit Agreement under terms that are mutually acceptable to the Lenders and the Company, then the secured lenders under the provisions of the Credit Agreement would have the right to enforce their liens, which could result in a sale of the Company's assets, including a liquidation or change in control of the Company. The Company believes that due to the fact that its operations and prospects are dependent in a large part on the continued efforts of Marshall T. Reynolds, a sale of such assets in whole or in part may not yield a full return of the debt principal to the Secured Lenders due to the cash flow nature of the loan from inception to date. The Company is working in good faith with its investment bankers to identify reasonably acceptable options and alternatives that include transaction alternatives, which would make reasonable sense for all parties. If the secured lenders ultimately feel that they could maximize their returns by foreclosing on the Company’s assets, which the Company does not believe have adequate collateral coverage, then it would be the prerogative of the secured lenders to do so, in the event the Company is unable to identify an alternative financing source, which may be challenging in the current economic climate. The Company ultimately believes the best course of action is for the Company to continue to negotiate in good faith with the secured lenders and work with its external advisory group to define a path to deleverage the Company in a prudent, deliberate fashion while serving its core customer base and striving to the best of its ability to assure that all obligations are satisfied to both secured and unsecured creditors.

As of October 31, 2011, the Company had a $1.2 million negative book cash balance, compared with the prior year when the Company had a $1.0 million negative book cash balance. Working capital as of October 31, 2011 was $(31.5) million, and $12.8 million at October 31, 2010. The decrease in working capital is associated with the classification as a current liability of approximately $33.0 million of term debt which was previously classified as long term as well as approximately $9.7 million in revolving credit borrowings being classified as current based on contractual maturities. The $33.0 million term debt reclassification resulted from the Company's inability to remain in compliance with certain of its financial covenants.

The Company had historically used cash generated from operating activities and debt to finance capital expenditures and the cash portion of the purchase price of acquisitions. Management plans to continue making required investments in equipment. The Company has available a line of credit totaling up to $15.0 million which is subject to borrowing base limitations and reserves which may be initiated by the Administrative Agent for Lenders in its sole discretion and are subject to a minimum excess availability threshold as well as the provisions of the Limited Forbearance Agreement (See Note 3 of the Consolidated Financial Statements). For the foreseeable future, including through Fiscal 2012, the Company's ability to fund operations, meet debt service requirements and make planned capital expenditures is contingent on continued availability of the aforementioned credit facilities and the ability of the Company to complete a restructuring or refinancing of the existing debt. The Company does not currently believe it will generate sufficient cash flow from operations to meet both scheduled principal and interest payments and pay off the entire line of credit which matures in September 2012.

The Company has engaged the investment banking group of Raymond James & Associates, Inc. (Raymond James) to assist it with a potential restructuring or refinancing of the existing debt and other potential transaction alternatives. Pursuant to the terms of the Limited Forbearance Agreement, the Company also engaged a Chief Restructuring Advisor to work with the Company, Raymond James, the Administrative Agent and syndicate of banks to address various factors, including the expiration of the Limited Forbearance Agreement on April 30, 2012, the revolving line of credit maturing in September 2012, and the term loan facility, which expires in September 2013. The Company continues to have ongoing dialogue with the Administrative Agent and the syndicate of banks with respect to its credit facilities. At October 31, 2011, a total of $47.6 million of current and long-term debt and outstanding revolving line of credit borrowings are subject to accelerated maturity and, as such, the creditors may, at their option, give notice to the Company that amounts owed are immediately due and payable.

The Company may incur costs in 2012 related to facility consolidations, employee termination costs and other restructuring related activities. These costs may be incurred, in part, as a response to the Company's efforts to overcome the impact of the global economic crisis, and may occur pursuant to certain initiatives being reviewed in accordance with the provisions of the Limited Forbearance Agreement.

Additionally, the Company has future contracted obligations (See Note 3 and Note 6 of the Consolidated Financial Statements). The Company is not a guarantor of indebtedness of others.

On December 12, 2011, the Company received a Notice of Default under its Credit Agreement dated September 14, 2007 (“Credit Agreement”) and the Second Amendment and Waiver to Credit Agreement dated March 31, 2010.

On December 28, 2011, the Administrative Agent, the Lenders, the Company, all of its subsidiaries and Marshall T. Reynolds entered into a Limited Forbearance Agreement and Third Amendment to Credit Agreement (the "Limited Forbearance Agreement") which provides, among other things, that during a forbearance period commencing on December 28, 2011, and ending on April 30, 2012 (unless terminated sooner by default of the Company under the Limited Forbearance Agreement or Credit Agreement), the Lenders are willing to temporarily forbear exercising certain rights and remedies available to them, including acceleration of the obligations or enforcement of any of the liens provided for in the Credit Agreement. The Company acknowledged in the Limited Forbearance Agreement that as a result of the existing defaults, the Lenders are entitled to decline to provide further credit to the Company, to terminate their loan commitments, to accelerate the outstanding loans, and to enforce their liens.

The Limited Forbearance Agreement provides that during the forbearance period, so long as the Company meets the conditions of the Limited Forbearance Agreement, it may continue to request credit under the revolving credit line.

The Limited Forbearance Agreement requires the Company to:

(a) engage a chief restructuring advisor to assist in developing a written restructuring plan for the Company's business operations;
(b) submit a restructuring plan to the Administrative Agent by February 15, 2012;
(c) provide any consultant retained by the Administrative Agent with access to the operations, records and employees of the Company;
(d) attain revised minimum EBITDA covenant targets; and
(e) provide additional financial reports to the Administrative Agent.

The Limited Forbearance Agreement provides that the credit commitment under the Credit Agreement is $15,000,000 and provides for a $1,450,000 reserve against the Credit Agreement borrowing base. The Company had borrowed under its $15.0 million line of credit approximately $9.7 million at October 31, 2011, which encompassed working capital requirements, refinancing of existing indebtedness prior to the Herald-Dispatch acquisition and to partially fund the purchase of the Herald-Dispatch. Pursuant to the terms of the Limited Forbearance Agreement, the Company's borrowing base certificate as submitted to the Administrative Agent and adjusted in this filing for such provisions in the Limited Forbearance Agreement reflected minimum excess availability of $5.4 million as of October 31, 2011. The minimum excess availability is subject to a $1,450,000 reserve and may be adjusted by the Administrative Agent.

The Limited Forbearance Agreement provides that $2,000,000 of the $2,500,000 cash collateral held by the Administrative Agent pursuant to the Contribution Agreement and Cash Collateral Security Agreement dated March 31, 2010, among the Company, Marshall Reynolds and the Administrative Agent (the "Contribution Agreement") shall be applied at the execution of the Limited Forbearance Agreement to the outstanding term loans in inverse order of maturity, which shall satisfy in full (a) any fixed charge violation (as defined in the Contribution Agreement) as of October 31, 2011, and during the forbearance period and (b) any excess cash flow payment due under the Credit Agreement during the forbearance period. If the Company, the Administrative Agent and applicable lenders do not enter into a new agreement or an amendment to the Limited Forbearance Agreement by April 30, 2012, the defaults shall be deemed existing and unsecured and any remaining funds in the cash collateral account shall be immediately available to the Administrative Agent pursuant to the Contribution Agreement. The $2,000,000 in cash collateral released to pay down term debt was issued in the form of a subordinated unsecured promissory note in the like amount.

On December 29, 2009, the Company, Marshall T. Reynolds, Fifth Third Bank, as Administrative Agent for lenders under the Company's Credit Agreement dated September 14, 2007, and the other lenders entered into a Forbearance Agreement. The Forbearance Agreement, among other provisions, required Marshall T. Reynolds to lend to the Company $3,000,000 in exchange for a subordinated unsecured promissory note in like amount, payment of principal and interest on which is prohibited until payment of all liabilities under the Credit Agreement. The subordinated unsecured promissory note, bearing interest at a floating Wall Street Journal prime rate and maturing September 14, 2014, and a debt subordination agreement, both dated December 29, 2009, were executed and delivered, and Mr. Reynolds advanced $3,000,000 to the Company. The $3,000,000 was applied to a prepayment of $3,000,000 of the Company's loans. The Forbearance Agreement expired on March 31, 2010 and the Company entered into a Second Amendment and Waiver to Credit Agreement.

On July 18, 2011, the Company and Mr. Reynolds entered into and consummated an Exchange Agreement pursuant to which the $3,000,000 subordinated unsecured promissory note, dated December 29, 2009 and delivered in connection with the Forbearance Agreement, together with $147,875 in accrued interest, was exchanged for 1,311,615 shares of common stock. The ratio of exchange was $2.40 of principal and accrued interest for one share of common stock. The transaction was completed at a discount of approximately 42.5% of the face value of the subordinated unsecured promissory note and related accrued interest. The transaction was approved by a majority of the disinterested directors in a separate board meeting chaired by a disinterested director. The transaction resulted in a net gain on early extinguishment of debt from a related party which is reflected in our Consolidated Statements of Operations. As a result of the Exchange Agreement, Marshall T. Reynolds beneficially owns over 50% of the Company's outstanding common stock.

On March 31, 2010, the Company, Fifth Third Bank, as a Lender, L/C Issuer and Administrative Agent for Lenders (the "Administrative Agent") and the other Lenders party to the Company's Credit Agreement dated September 14, 2007 (the "Credit Agreement") entered into a Second Amendment and Waiver to Credit Agreement ("the "Second Amendment"). All conditions precedent to the effectiveness of the Second Amendment were satisfied on April 6, 2010. The Company has pledged substantially all of the assets of the Company as collateral for the indebtedness under the Credit Agreement.

In the Second Amendment the Administrative Agent and Lenders waived any default or event of default arising from the Company's previously disclosed violations of provisions of the Credit Agreement. The Second Amendment amended various provisions of the Credit Agreement, including but not limited to:

- a $17,000,000 revolving credit facility with a sublimit of up to $3,000,000 for letters of credit and $3,000,000 for swing line loans. Outstanding borrowings, thereunder, may not exceed the sum of (1) up to 85% of eligible receivable plus (b) up to the lesser of $6,000,000 or 50% of eligible inventory.
- at the Company's option, interest at a LIBOR Rate, so long as no default exists.
- post-default increase in interest rate of 2%.
- amendment of various financial covenants.
- fixed charge coverage ratio is required to be 1.0:1.0 through January 31, 2011; 1.1:1.0 through January 31, 2012 and 1.20:1.00 thereafter.
- leverage ratio shall not be greater than 6.5:1.00 at April 30, 2010 with 0.5:1.00 step-downs quarterly through April 30, 2011 and 0.25:1.00 quarterly step-downs through April 30, 2012.
- minimum EBITDA pursuant to a quarterly build up commencing with the three months ended April 30, 2010 of $2,700,000, the six months ended

July 31, 2010 of $5,400,000, the nine months ended October 31, 2010 of $8,900,000 and the twelve months ended January 31, 2011 of $11,800,000,

thereafter varying quarterly step-ups culminating in twelve months trailing EBITDA of $14,300,000 at October 31, 2012.

• maximum capital expenditures are limited to $2,000,000 per fiscal year for the years ended October 31, 2010 and 2011 and $2,500,000 thereafter.
• enhanced reporting by the Company to Administrative Agent, including monthly reports and conference calls, quarterly reports by the Company's independent auditors of restructuring charges and organizational expense reductions.
• application of the Company's income tax refunds applied to reduce indebtedness under the Credit Agreement.
• restrictions on payment of dividends based on various covenant compliance thresholds.

The Company was in compliance with the covenants of its credit agreements at October 31, 2010. Failure to maintain compliance with financial covenants as required by our credit facility could result in default and acceleration of amounts due under those facilities. The Company is required to maintain a minimum of $750,000 of compensating balances with the Administrative Agent under the terms of its Credit Agreement.

As required by the Second Amendment, the Company, Marshall T. Reynolds and the Administrative Agent entered into a Contribution Agreement and Cash Collateral Security Agreement dated March 31, 2010 (the "Contribution Agreement") pursuant to which Mr. Reynolds deposited $2,500,000 as cash collateral with the Administrative Agent, which the Administrative Agent may withdraw upon an event of default under the Credit Agreement. The cash collateral is in an account in Mr. Reynolds name with the Administrative Agent and is not reflected on the Company’s financial statements at October 31, 2011 and 2010.

Mr. Reynolds has granted the Administrative Agent a first priority security interest in the cash collateral.

Amounts drawn down by the Administrative Agent will be applied to repayment of the Company's obligations under the Credit Agreement. The Contribution Agreement expires upon the earliest of (i) full draw down of the $2,500,000 deposited, (ii) repayment in full of all obligations under the Credit Agreement and termination of all commitments thereunder and (iii) the Administrative Agent's determination that the Company has achieved a fixed charge coverage ratio of at least 1.2 to 1.0 as of the last day of two consecutive fiscal quarters of the Company.

In connection with the Contribution Agreement, the Company executed and delivered to Mr. Reynolds a Subordinated Promissory Note in amount of $2,500,000, payment of principal and interest on which is prohibited prior to January 31, 2011, and thereafter only with the Administrative Agent's consent. The Subordinated Promissory Note bears interest at the Wall Street Journal prime rate (3.25% at inception and at October 31, 2011 and 2010), matures September 14, 2014 and is unsecured.

This promissory note was unfunded at the issuance date and at October 31, 2011 and 2010, and therefore there was no outstanding subordinated debt or accrued interest related to this note, because the Administrative Agent had made no draws on the cash collateral at the issuance date through October 31, 2011. On December 28, 2011, pursuant to the terms of the Limited Forbearance Agreement, a draw of $2.0 million was made on the cash collateral and $2.0 million was funded in the form of the subordinated unsecured promissory note.

The Company had borrowed under its $15.0 million line of credit approximately $9.7 million at October 31, 2011 which encompassed working capital requirements, refinancing of existing indebtedness prior to The Herald-Dispatch acquisition and to partially fund the purchase of The Herald-Dispatch. Pursuant to the terms of the Limited Forbearance Agreement, the Company's borrowing base certificate as submitted to the Administrative Agent reflected minimum excess availability of $5.4 million as of October 31, 2011. The minimum excess availability is subject to a $1,450,000 reserve and may be adjusted by the Administrative Agent.

As of October 31, 2011, the Company had contractual obligations in the form of leases and debt as follows:

	Payments Due by Fiscal Year						
Contractual Obligations	2012	2013	2014	2015	2016	Residual	Total
Non-cancelable operating leases	$ 1,280,450	$ 1,104,692	$ 489,156	$ 207,198	$ -	$ -	$ 3,081,496
Revolving line of credit	9,725,496	-	-	-	-	-	9,725,496
Term debt	38,629,011	360,982	70,015	-	-	-	39,060,008
	$ 49,634,957	$ 1,465,674	$ 559,171	$ 207,198	$ -	$ -	$ 51,867,000

The Company is required to make certain mandatory payments on its credit facilities related to (1) net proceeds received from a loss subject to applicable thresholds, (2) equity proceeds and (3) effective January 31, 2009, the Company is required to prepay its credit facilities by 75% of excess cash flow for its most recently completed fiscal year. The excess cash flow for purposes of this calculation is defined as the difference (if any) between (a) EBITDA for such period and (b) federal, state and local income taxes paid in cash during such period plus capital expenditures during such period not financed with indebtedness plus interest expense paid in cash during such period plus the aggregate amount of scheduled payments made by the Company and its subsidiaries during such period in respect of all principal on all indebtedness (whether at maturity, as a result of mandatory sinking fund redemption, or otherwise), plus restricted payments paid in cash by the Company during such period in compliance with the Credit Agreement. Pursuant to the terms of the Limited Forbearance Agreement, there would be no excess cash flow payment due based on the contractual provisions regarding the application of cash collateral. The Company has no prepayment obligation due January 31, 2012 or in 2011 pursuant to the calculations of the applicable credit agreements.

Cash Flows from Operating Activities

Cash flows from operating activities for the years ended October 31, 2011, 2010 and 2009 were $7.0 million, $8.0 million, and $11.3 million. The decrease in cash flows from operating activities for fiscal 2011 compared to 2010 was primarily associated with timing changes in assets and liabilities. The decrease in cash flows from operating activities for fiscal 2010 compared to 2009 was primarily associated with a nominal change in accounts receivable in 2010 and 2009 compared with a significant decrease in receivables in 2009 compared to 2008. The impairment costs associated primarily with the acquisition of the Herald-Dispatch had no impact on cash flows from operating activities.

Cash Flows from Investing Activities

Cash used in investing activities were $(0.5) million, $(0.4) million, and $(1.0) million for the years ended October 31, 2011, 2010 and 2009. Cash flows used in investing activities were relatively unchanged from 2009 to 2011. The cash used in investing activities in 2011 and 2010 was primarily related to purchases of property and equipment. The cash used in investing activities in 2009 was primarily related to capital expenditures offset by proceeds from cash surrender value of life insurance policies.

Cash Flows from Financing Activities

Net cash flows used in financing activities for the years ended October 31, 2011, 2010 and 2009 were $(6.5) million, $(8.8) million, and $(9.2) million. During 2011, the Company reduced net borrowings by approximately $6.5 million after adjusting for non-cash investing and financing activities, net of increases in negative book cash balances. During 2010, the Company reduced net borrowings by approximately $8.3 million after adjusting for non-cash investing and financing activities, net of increases in negative book cash balances. Dividend payments of $0.6 million were reflective of net cash used in financing activities in 2009. No dividends were paid in 2011 or 2010.

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 had a significant adverse impact on the Company’s business. A continuing or a deepening of the recessionary conditions we are experiencing could significantly affect our revenue categories and associated profitability.

SEASONALITY

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

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. The global economic crisis as well as other macro-economic factors and customer demand has impacted this general trend in recent years. The Company is unable to predict if this trend has fundamentally shifted until such time a more stable economic climate is present.

Our business is subject to seasonal fluctuations that we expect to continue to be reflected in our operating results in future periods. On a historical basis, The Herald-Dispatch’s first and third calendar quarters of the year tended to be the weakest because advertising volume is at its lowest levels following the holiday season and a seasonal slowdown in the summer months. Correspondingly, on a historical basis the fourth calendar quarter followed by the second calendar quarter tended to be the strongest quarters. The fourth calendar quarter included heavy holiday season advertising. Other factors that affect our quarterly revenues and operating results may be beyond our control, including changes in the pricing policies of our competitors, the hiring and retention of key personnel, wage and cost pressures, distribution costs, changes in newsprint prices and general economic factors.

NEWLY ISSUED ACCOUNTING STANDARDS

In 2011, FASB issued Accounting Standards Update ("ASU") 2011-08, Testing Goodwill for Impairment, which provides new guidance on testing goodwill for impairment. This new guidance gives us, subject to certain conditions, the option of first performing a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. We adopted this guidance in 2011, as permitted. Adoption did not have a material impact on our Consolidated Financial Statements.

Comprehensive income. In June and December 2011, the FASB issued guidance on the presentation of comprehensive income. This guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity, which is our current presentation, and also requires presentation of reclassification adjustments from other comprehensive income to net income on the face of the financial statements. This guidance is effective for fiscal years and interim periods beginning after December 15, 2011, with the exception of the requirement to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements, which has been deferred pending further deliberation by the FASB, and is not expected to have a material effect on our financial condition or results of operations, though it will change our financial statement presentation.

ITEM 15 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) (1) and (2)

The following exhibits are filed as part of this Amendment No.1

3. 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 - Todd R. Fry	Exhibit 31.2	Page Exhibit 31.2-p1

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

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

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

Date: May 21, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on the dates indicated.

SIGNATURE AND TITLE	DATE
/s/ Gregory D. Adkins Gregory D. Adkins, Controller	May 21, 2012
/s/ Louis J. Akers Louis J. Akers, Director	May 21, 2012
/s/ Philip E. Cline Philip E. Cline, Director	May 21, 2012
/s/ Todd R. Fry Todd R. Fry, Senior Vice President and Chief Financial Officer	May 21, 2012
/s/ Harley F. Mooney, Jr. Harley F. Mooney, Jr., Director	May 21, 2012
/s/ A. Michael Perry A. Michael Perry, Director	May 21, 2012
/s/ Marshall T. Reynolds Marshall T. Reynolds, Director, Chairman of the Board and Chief Executive Officer	May 21, 2012

/s/ Neal W. Scaggs Neal W. Scaggs, Director	May 21, 2012
/s/ Glenn W. Wilcox, Sr. Glenn W. Wilcox, Sr., Director	May 21, 2012