

CHAMPION INDUSTRIES INC
Form 10-Q
March 14, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2014

OR

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

For the transition period from _____ to _____

Commission File No. 000-21084

Champion Industries, Inc.
(Exact name of Registrant as specified in its charter)

West Virginia
(State or other jurisdiction of
incorporation or organization)

55-0717455
(I.R.S. Employer
Identification No.)

2450-90 1st Avenue
P.O. Box 2968
Huntington, WV 25728
(Address of principal executive offices)
(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No .

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at January 31, 2014
Common stock, \$1.00 par value per share	11,299,528 shares

Champion Industries, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Champion Industries, Inc. and Subsidiaries

Consolidated Balance Sheets

ASSETS	January 31, 2014 (Unaudited)	October 31, 2013
Current assets:		
Cash and cash equivalents	\$ 203,156	\$ 1,428,542
Accounts receivable, net of allowance of \$912,000 and \$973,000	9,117,028	9,612,826
Inventories	4,700,911	4,884,579
Other current assets	264,575	423,441
Current portion assets held for sale/discontinued operations (see Note 11)	461,443	493,304
Total current assets	14,747,113	16,842,692
Property and equipment, at cost:		
Land	1,254,195	1,254,195
Buildings and improvements	4,988,229	4,988,229
Machinery and equipment	34,350,719	34,334,909
Equipment under capital lease	72,528	72,528
Furniture and fixtures	3,660,008	3,654,353
Vehicles	2,439,491	2,526,038
	46,765,170	46,830,252
Less accumulated depreciation	(39,284,297)	(38,961,412)
	7,480,873	7,868,840
Goodwill	1,230,485	1,230,485
Deferred financing costs	179,607	218,824
Other intangibles, net of accumulated amortization	1,273,350	1,308,249
Other assets	60,240	61,532
	2,743,682	2,819,090
Total assets	\$ 24,971,668	\$ 27,530,622

See notes to consolidated financial statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	January 31, 2014	October 31, 2013
	(Unaudited)	
Current liabilities:		
Accounts payable	\$ 5,461,452	\$ 6,925,532
Accrued payroll and commissions	442,059	767,638
Taxes accrued and withheld	771,826	745,658
Accrued expenses	1,675,125	1,785,035
Current portion liabilities held for sale/discontinued operations (see Note 5 and Note 11)	-	315
Notes payable (see Note 5)	915,097	902,565
Capital lease obligations (see Note 5)	14,025	13,817
Total current liabilities	9,279,584	11,140,560
Long-term debt, net of current portion:		
Notes payable (see Note 5)	9,376,658	9,494,727
Notes payable - related party (see Note 5)	2,500,000	2,500,000
Debt discount (see Note 5)	(391,832)	(477,387)
Capital lease obligations (see Note 5)	38,978	42,563
Long-term portion liabilities held for sale/discontinued operations (see Note 5 and Note 11)	461,443	492,989
Other liabilities	-	150
Total liabilities	21,264,831	23,193,602
Shareholders' equity:		
Common stock, \$1 par value, 20,000,000 Class A voting shares authorized; 11,299,528 shares issued and outstanding	11,299,528	11,299,528
Common Stock, Class B nonvoting stock, \$1 par value, 5,000,000 shares authorized, -0- shares issued and outstanding	-	-
Additional paid-in capital	24,279,179	24,279,179
Retained deficit	(31,871,870)	(31,241,687)
Total shareholders' equity	3,706,837	4,337,020
Total liabilities and shareholders' equity	\$ 24,971,668	\$ 27,530,622

See notes to consolidated financial statements.

Champion Industries, Inc. and Subsidiaries
Consolidated Statements of Operations

	Three Months Ended January 31,	
	2014	2013
Revenues:		
Printing	\$ 9,358,608	\$ 11,101,480
Office products and office furniture	6,064,090	7,209,019
Total revenues	15,422,698	18,310,499
Cost of sales:		
Printing	7,226,610	8,240,566
Office products and office furniture	4,435,766	4,943,946
Total cost of sales	11,662,376	13,184,512
Gross profit	3,760,322	5,125,987
Selling, general and administrative expenses	4,120,474	5,142,321
Goodwill impairment	-	2,226,837
(Loss) from operations	(360,152)	(2,243,171)
Other income (expense):		
Interest expense - related party	(20,764)	(20,764)
Interest expense	(263,761)	(1,315,066)
Other	14,494	9,623
	(270,031)	(1,326,207)
(Loss) from continuing operations before income taxes	(630,183)	(3,569,378)
Income tax benefit	-	23,523
Net (loss) from continuing operations	(630,183)	(3,545,855)
Net Income from discontinued operations	-	3,978
Net (loss)	\$ (630,183)	\$ (3,541,877)
(Loss) per share:		
Basic and diluted (loss) from continuing operations	\$ (0.06)	\$ (0.31)
Basic and diluted (loss) from discontinued operations	-	-
Total (loss) per common share	\$ (0.06)	\$ (0.31)
Weighted average shares outstanding:		
Basic and diluted	11,300,000	11,300,000

See notes to consolidated financial statements.

Champion Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Three Months Ended January 31,	
	2014	2013
Cash flows from operating activities:		
Net (loss)	\$(630,183)	\$ (3,541,877)
Net income from discontinued operations	-	3,978
Net (loss) from continuing operations	(630,183)	(3,545,855)
Adjustments to reconcile net (loss) from continuing operations to cash (used in) provided by operating activities:		
Depreciation and amortization	521,072	547,212
(Gain) on sale of assets	(14,124)	(9,250)
Allowance for doubtful accounts	20,808	(29,464)
Deferred financing costs / debt discount	124,770	614,226
Accrued deferred fee	-	260,700
Goodwill impairment	-	2,226,837
Changes in assets and liabilities:		
Accounts receivable	474,990	1,425,104
Inventories	183,668	244,606
Other current assets	158,866	191,643
Accounts payable	(1,464,080)	1,425,759
Accrued payroll and commissions	(325,579)	(229,617)
Taxes accrued and withheld	26,168	71,111
Accrued expenses	(109,910)	(326,356)
Other liabilities	(150)	(450)
Net cash (used in) provided by operating activities		
continuing operations	(1,033,684)	2,866,206
Net cash provided by operating activities		
discontinued operations	31,546	135,119
	(1,002,138)	3,001,325

See notes to consolidated financial statements.

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

	Three Months Ended January 31,	
	2014	2013
Cash flows from investing activities:		
Purchase of property and equipment	(129,634)	(73,600)
Proceeds from sale of fixed assets	45,552	9,250
Proceeds from assets held for sale	-	816,667
Change in other assets	1,293	(538)
Net cash (used in) provided by investing activities continuing operations	(82,789)	751,779
Net cash provided by investing activities discontinued operations	-	408,333
	(82,789)	1,160,112
Cash flows from financing activities:		
Proceeds from term debt	108,623	-
Principal payments on term debt	(249,082)	(1,832,508)
Net cash used in financing activities continuing operations	(140,459)	(1,832,508)
Net cash used in financing activities discontinued operations	-	(408,333)
	(140,459)	(2,240,841)
Net (decrease) increase in cash and cash equivalents	(1,225,386)	1,920,596
Cash and cash equivalents at beginning of period	1,428,542	1,844,797
Cash and cash equivalents at end of period	\$203,156	\$ 3,765,393

See notes to consolidated financial statements.

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

1. Basis of Presentation, Business Operations and Recent Accounting Pronouncements

The foregoing financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and rules and regulations of the Securities and Exchange Commission for interim financial reporting. The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In the opinion of management, the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP. These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended October 31, 2013, and related notes thereto contained in Champion Industries, Inc.’s Form 10-K filed January 29, 2014. 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, 2013 was derived from our audited financial statements.

Reclassifications and Revisions: Certain prior-year amounts have been reclassified to conform to the current year financial statement presentation. The Company's operations comprising its former Donihe Graphics division, Blue Ridge Printing division and the Herald-Dispatch Newspaper segment were classified as discontinued operations in the consolidated statements of operations for all periods presented. (see Note 11).

Newly Issued Accounting Standards

Effective July 1, 2009, changes to the ASC are communicated through an ASU. As of January 31, 2014, the FASB has issued ASU’s 2009-01 through 2014-05. The Company reviewed each ASU and determined that they will not have a material impact on the Company’s financial position, results of operations or cash flows, other than related disclosures to the extent applicable.

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

2. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average shares of common stock outstanding for the period and excludes any dilutive effects of stock options and warrants. Diluted earnings per share is computed by dividing net income by the weighted average shares of common stock outstanding for the period plus the shares that would be outstanding assuming the exercise of dilutive stock options and warrants using the treasury stock method. There was no dilutive effect for the three months ended January 31, 2014 and 2013.

3. Accounts Receivable, Allowance for Doubtful Accounts and Revenue Recognition

Accounts Receivable: Accounts receivable are stated at the amount billed to customers. Accounts receivable are ordinarily due 30 days from the invoice date. The Company encounters risks associated with sales and the collection of the associated accounts receivable. As such, the Company records a monthly provision for accounts receivable that are considered to be uncollectible and performs a comprehensive assessment periodically utilizing a variety of historical information and specific account review. The allowance for doubtful accounts is assessed periodically based on events that may change the rate such as a significant increase or decrease in collection performance and timing of payments as well as the calculated total exposure in relation to the allowance. Periodically, the Company compares the identified credit risks with the allowance that has been established using historical experience and adjusts the allowance accordingly.

Revenue Recognition: Revenues are recognized when products are shipped or ownership is transferred and when services are rendered to customers. The Company acts as a principal party in sales transactions, assumes title to products and assumes the risks and rewards of ownership including risk of loss for collection, delivery or returns. The Company typically recognizes revenue for the majority of its products upon shipment to the customer and transfer of title. Under agreements with certain customers, custom forms may be stored by the Company for future delivery. In these situations, the Company may receive a logistics and warehouse management fee for the services provided. In these cases, delivery and bill schedules are outlined with the customer and product revenue is recognized when manufacturing is complete and the product is received into the warehouse, title transfers to the customer, the order is invoiced and there is reasonable assurance of collectability. Since the majority of products are customized, product returns are not significant. Therefore, the Company records sales on a gross basis. Advertising revenues are recognized, net of agency commissions, in the period when advertising is printed or placed on websites for the former newspaper segment (reflected as discontinued operations). Circulation revenues are recognized when purchased newspapers are distributed (reflected as discontinued operations). Revenue generally is recognized net of any taxes collected from customers and subsequently remitted to government authorities.

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited) (continued)

4. Inventories

Inventories are principally stated at the lower of first-in, first-out cost or market. Manufactured finished goods and work in process inventories include material, direct labor and overhead based on standard costs, which approximate actual costs. The Company utilizes an estimated gross profit method for determining cost of sales in interim periods at certain divisions.

Inventories consisted of the following:

	January 31, 2014	October 31, 2013
Printing:		
Raw materials	\$ 1,330,826	\$ 1,375,675
Work in process	719,187	756,861
Finished goods	1,247,800	1,218,233
Office products and office furniture	1,403,098	1,533,810
	\$ 4,700,911	\$ 4,884,579

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

5. Long-Term Debt

Long-term debt consisted of the following:

	January 31, 2014	October 31, 2013
Term Note A dated October 7, 2013, due in monthly installments of \$50,000 plus interest payments equal to the prime rate of interest plus 2% maturing April 1, 2015, collateralized by substantially all of the assets of the Company.	\$ 10,300,000	\$ 10,450,000
Installment notes payable to banks and Lessor, due in monthly installments plus interest at rates approximating the bank's prime rate or the prime rate subject to various floors maturing in various periods ranging from December 2013-January 2016, collateralized by equipment and vehicles.	453,198	440,281
Notes payable to shareholders. The shareholder note of \$2.5 million plus all accrued interest was initially due in one balloon payment in September 2014 pursuant to Term Note A maturity adjusted to April 2015. Interest is equal to the prime rate.	2,500,000	2,500,000
Capital lease obligation for printing equipment at an imputed interest rate of 6.02% per annum	53,003	56,380
Unamortized debt discount	(391,832)	(477,387)
	12,914,369	12,969,274
Less current portion long-term debt	915,097	902,565
Less current portion obligation under capital lease	14,025	13,817
Long-term debt, net of current portion and capital lease obligation	\$ 11,985,247	\$ 12,052,892
Continuing operations:		
Long-term debt, net of current portion	\$ 9,376,658	\$ 9,494,727
Long-term capital lease obligation	38,978	42,563
Current portion of long-term debt	915,097	902,565
Long-term notes payable to related party	2,500,000	2,500,000
Current portion of capital lease obligation	14,025	13,817
Debt discount	(391,832)	(477,387)
Total debt from continuing operations	12,452,926	12,476,285
Liabilities held for sale/discontinued operations - debt (see Note 11)	461,443	492,989
Total indebtedness	\$ 12,914,369	\$ 12,969,274

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

The Company has determined in accordance with applicable provisions of GAAP that indebtedness that is required to be repaid as a result of a disposal transaction should be allocated to discontinued operations. The specific allocation of sale proceeds would typically be allocated at the discretion of the Administrative Agent for the Company's Previous Secured Lenders between the revolving credit facility and term debt. The proceeds from assets held for sale are required to be remitted to the Administrative Agent for the extinguishment of debt. Therefore, the debt allocated to liabilities held for sale/discontinued operations reflects actual or estimated debt pay downs based on either proceeds received or the carrying amount of the related assets held for sale, net of associated liabilities held for sale prior to debt allocated to liabilities held for sale/discontinued operations. The Company utilized estimated, or if available, actual debt payments required to be made associated with the held for sale/discontinued operations classification. The prior period amounts were equivalent to the allocations or payments in the applicable period.

Maturities of long-term debt and capital lease obligations from continuing and discontinued operations for each of the next five years beginning February 1, 2014:

2014	\$ 929,122
2015	11,961,159
2016	15,809
2017	8,279
2018	-
	\$ 12,914,369

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

Debt 2014:

The Company is currently operating under the provisions of the Third Amended and Restated Credit Agreement (the "October 2013 Credit Agreement") as further discussed herein.

Debt 2013:

Effective October 7, 2013 the Company began operating under a October 2013 Credit Agreement as further discussed herein. The following is a sequential summary of the various debt actions in 2013:

The Company operated under the provisions of the Restated Credit Agreement until the event of default notice received on March 25, 2013. Since that date the Company operated under an event of default pursuant to two default notifications defined herein.

The Company received a notice of default on March 25, 2013 in a letter dated March 22, 2013, which was reported pursuant to item 2.04 of Form 8-K filed March 26, 2013. This notice of default advised that the Administrative Agent had not waived any event of default and the Lender Parties expressly reserve all rights and remedies available to them under the Restated Credit Agreement.

The Company received a notice of default on April 30, 2013 in a letter dated April 25, 2013, which was reported pursuant to item 2.04 of Form 8-K filed May 3, 2013. This notice of default advised that the Administrative Agent had not waived any event of default and the Lender Parties expressly reserved all rights and remedies available to them under the Restated Credit Agreement.

The Notices of Default and Reservation of Rights specifically advised that Events of Default had occurred and continued to exist for the Company under Section 7.1(b) of the Credit Agreement by reason of: (a) Borrower's noncompliance with the minimum EBITDA covenant, set forth in Section 6.20(d) of the Credit Agreement, for the Test Periods ended February 28 and March 31, 2013 and for the Notices of Default filed May 3, 2013 (b) the Company's failure to perform the covenant set forth in Section 6.31(d) of the Credit Agreement (failure to complete, no later than March 31, 2013, the Designated Transaction).

On May 31, 2013, the Administrative Agent, the Lenders, all of its subsidiaries and Marshall T. Reynolds entered into the May 2013 Forbearance Agreement which provided, among other things, that during a forbearance period commencing on May 31, 2013, and ending on September 30, 2013 (unless terminated sooner by default of the Company under the May 2013 Forbearance Agreement), the Lenders were 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 Restated Credit Agreement. The Company acknowledged in the May 2013 Forbearance Agreement that as a result of the existing defaults, the Lenders were 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 May 2013 Forbearance Agreement provided that during the forbearance period, so long as the Company met the conditions of the May 2013 Forbearance Agreement, it could continue to request credit under the revolving credit line.

The May 2013 Forbearance Agreement required the Company to:

- (a) Enter into various Designated Transactions referred to as Designated Transaction No. 1 and Designated Transaction No. 2 pursuant to applicable approvals from secured lenders regarding

pricing or other actions, including letters of intent no later than June 14, 2013 setting forth the terms and conditions for Designated Transaction No. 1 that shall be satisfactory to the Required Lenders. The Company was also required to use its reasonable best efforts to enter into a letter of intent, no later than June 7, 2013, for Designated Transaction No. 2. There were also various targeted dates upon acceptance of applicable letters of intent for Designated Transactions which would result in various actions to be achieved by the applicable milestone dates or if not achieved might be considered an event of default.

- (b) Acknowledge in a writing, satisfactory to the Required Lenders, that approval of the Company's shareholders shall not be required for Designated Transaction No. 1, whether considered separately or together with Designated Transaction No. 2.
- (c) The Company was subject to a minimum EBITDA covenant commencing with the month ended June 30, 2013 based on a buildup starting April 1, 2013 of \$1,378,394 at June 30, 2013, \$2,198,509 at July 31, 2013 and \$2,506,722 at August 31, 2013
- (d) Continued retention of Timothy D. Boates, RAS Management Advisors, LLC as its Chief Restructuring Officer who shall continue to be subject to the sole authority, direction and control of the Company's Board of Directors and to report directly to the Board.
- (e) Expenditure limitations as defined in CRO report and under direct control of the CRO.
- (f) The requirement of a general reserve of \$1,000,000 in the definition of "Borrowing Base" in the Restated Credit Agreement shall be waived for the duration of the Forbearance Period.
- (g) Removal of requirement to maintain \$750,000 concentration account minimum balances.
- (h) Temporary Overadvance on the borrowing base in an amount not to exceed \$1,200,000 subject to the aggregate revolving credit commitment limit of \$10,000,000. Overadvance shall be repaid upon receipt of project receivables and such repayment shall be a permanent reduction in the Temporary Overadvance. Such Overadvance shall be repaid in full upon the earliest Designated Transaction No.1 or Designated Transaction No.2 or September 30, 2013.
- (i) Excess availability of \$500,000.

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

On August 28, 2013, the Administrative Agent, the Lenders, all of its subsidiaries and Marshall T. Reynolds entered into a First Limited Forbearance and Waiver Agreement and Second Amendment to Amended and Restated Credit Agreement (“August 2013 Forbearance Amendment”). This Agreement decreased the Revolving Credit Commitments from \$10,000,000 in the aggregate to \$8,000,000 in the aggregate, modified certain financial covenants and provided the consent to the sale of certain assets.

The Company, various Company subsidiaries, as Guarantors, Marshall T. Reynolds, as shareholder and Big 4 Investments, LLC (“Administrative Agent and Lender”) as Lender and Administrative Agent entered into a Third Amended and Restated Credit Agreement dated October 7, 2013. Administrative Agent and Lender purchased the Company’s outstanding syndicated debt from Fifth Third Bank and the other Lenders (“Previous Secured Lenders”) for a price of \$10.0 million. The Administrative Agent and Lender then simultaneously entered into the October 2013 Credit Agreement with the Company pursuant to the provisions of Term Note A for \$10.0 million and related Guaranty Agreement and Stock Pledge and Security Agreement all dated October 7, 2013. The indebtedness immediately prior to the note sale reflected a balance pursuant to the Loan Purchase Agreement between Administrative Agent and Lender and the Previous Secured Lenders of approximately \$19.9 million representing Term Loan A, Term Loan B and Revolving Loans plus accrued deferred fee and accrued interest of approximately \$1.2 million.

The October 2013 Credit Agreement and related Term Note A, Guaranty Agreement and Stock Pledge and Security Agreement as further described herein amended various provisions of the Restated Credit Agreement dated October 19, 2012, including but not limited to:

October 2013 Credit Agreement maturity of April 1, 2015.

Existing debt restructured from Term Loan A, Term Loan B, and Revolving Credit Facility to Term Note A in the amount of \$10,000,000.

The Company's debt will not have a revolving credit facility component.

Interest rate at the Wall Street Journal prime rate of interest plus two percent.

Principal payments due monthly at \$50,000 per month.

\$500,000 maturity or prepayment premium.

Financial covenant of maximum capital expenditures of \$3,000,000 during any fiscal year.

Personal guaranty of Marshall T. Reynolds.

Stock Pledge and Security Agreement providing a third party credit enhancement to support the credit facility underwritten by the Administrative Agent.

In consideration for the personal Guaranty Agreement of Marshall T. Reynolds and Stock Pledge and Security Agreement, the warrants held by the Previous Secured Lenders were assigned to Marshall T. Reynolds. The warrants represent \$0.001 per share warrants issued for up to 30% (on a post-exercise basis) of the outstanding common stock of the Company in the form of non-voting Class B common stock and associated Investor Rights Agreement.

The Company reviewed applicable GAAP and determined that extinguishment accounting should be applied in relation to the October 2013 Credit Agreement.

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

Other debt provisions:

The prime rate was the primary interest rate on the above loans prior to September 14, 2007. After this date, the primary interest rate consisted primarily of LIBOR 30-day, 60-day and 90-day rates plus the applicable margin (effective with the Second Amendment, the primary interest rate was LIBOR 30-day and 60-day rates plus the applicable margin) (after the Restated Credit Agreement effective date, the primary interest rate was LIBOR plus the applicable margin). Concurrent with the October 2013 Credit Agreement the prime rate plus the applicable margin is the primary interest rate on the Company's indebtedness. Prime rate approximated 3.25% at January 31, 2014 and 2013 while the LIBOR rate approximated 0.25% at January 31, 2013. The Company had accrued interest of approximately \$161,000 and \$142,000 at January 31, 2014 and October 31, 2013 recorded as accrued expenses on the balance sheet. Deferred financing costs and debt discount are amortized under the interest method over the life of the related credit facilities and are reported as part of interest expense. In 2014 and 2013, \$125,000 and \$614,000 of debt discount and/or deferred financing costs were included as interest expense. In addition, certain period costs associated with these credit facilities are recorded as a component of interest including administrative agent fees and costs. The Company amortized under the interest method the debt discount associated with the issuance of warrants as well as lender fees and other costs associated with the Restated Credit Agreement and is amortizing under the interest method the costs and maturity prepayment premium associated with the October 2013 Credit Agreement. Interest paid from total operations during the three months ended January 31, 2014 and 2013 approximated \$138,000 and \$666,000.

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

6. Income taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers a multitude of factors in assessing the utilization of its deferred tax assets including the reversal of deferred tax liabilities, projected future taxable income and other assessments, which may have an impact on financial results. The Company had determined that a full valuation allowance was warranted at October 31, 2013. The Company reassessed its previous determination regarding its valuation allowance and determined that a full valuation allowance was warranted at January 31, 2014. The amount of deferred tax asset considered realizable could be adjusted in future periods based on a multitude of factors, including but not limited to a reassessment of our credit position, and such adjustments may be material to the Consolidated Financial Statements.

The Company's effective tax rate for continuing operations for 2014 was 0.0% compared to a tax benefit of 0.7% for 2013. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate and may be impacted by increases or decreases in the valuation allowance for deferred tax assets. The Company recorded a tax benefit from continuing operations in 2013 resulting from the application of certain provisions of ASC 740 regarding interim implications of intra-period tax allocations for discontinued operations when there is a loss from continuing operations to maintain financial statement neutrality and to recognize the tax components between continuing operations and discontinued operations on a discrete basis.

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

7. Commitments and Contingencies

The nature of The Company's business results in a certain amount of claims, litigation, investigations, and other legal and administrative cases and proceedings, all of which are considered incidental to the normal conduct of business. When the Company determines it has meritorious defenses to the claims asserted, it vigorously defends itself. The Company will consider settlement of cases when, in Management's judgment, it is in the best interests of both the Company and its shareholders to do so.

The Company periodically assesses its liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. The Company would accrue a loss on legal contingencies in the event the loss is deemed probable and reasonably estimable. The accrual is adjusted as appropriate to reflect any relevant developments regarding the legal contingency. In the event of a legal contingency where a loss is not probable or the amount of the loss cannot be estimated, no accrual is established.

In certain cases, exposure to loss may exist in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes an estimate of the aggregate of reasonably possible losses, in excess of amounts accrued, for current legal proceedings not covered by insurance is not greater than \$0.4 million at January 31, 2014 and may be substantially lower than this amount. Any estimate involves significant judgment, given the varying stages of the proceedings (including cases in preliminary stages), as well as numerous unresolved issues that may impact the outcome of a proceeding. Accordingly, Management's estimate will change from time-to-time, and actual losses may be more or less than the current estimate. The current loss estimate excludes legal and professional fees associated with defending such proceedings. These fees are expensed as incurred and may be material to the Company's Consolidated Financial Statements in a particular period.

While the final outcome of legal proceedings is inherently uncertain, based on information currently available, advice of counsel, and available insurance coverage, Management believes that there is no accrual for legal contingencies required at this time. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be greater than the current range of estimates discussed above and may be material to the Company's Consolidated Financial Statements in a particular period.

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

In accordance with the provisions of the Restated Credit Agreement, the Company issued \$0.001 per share warrants issued for up to 30% (on a post-exercise basis) of the outstanding common stock of the Company in the form of non-voting Class B common stock and associated Investor Rights Agreement for the benefit of the Previous Secured Lenders under the Restated Credit Agreement. The warrants expire after October 19, 2017.

The Warrants entitle the Holders thereof to purchase that number of shares of Company Class B Common Stock equal to thirty percent (30%) of the then issued and outstanding Common Stock of the Company, on a fully diluted, post-exercise basis. Based on the 11,299,528 shares of Company Common Stock currently issued and outstanding, exercise in full of the Warrants would result in the Company's issuance of an additional 4,842,654 shares to the Warrant Holders. In the event a greater number of issued and outstanding common shares exist at the time of option exercise, a greater number of options of shares of Class B Common Stock would be issuable. The Previous Secured Lenders assigned the warrants to Marshall T. Reynolds in consideration for his personal guaranty and stock pledge and security agreement to assist in facilitating the consummation of the October 2013 Credit Agreement. The Previous Secured Lenders, as Warrant Holders, were subject to the ownership limitations of the Bank Holding Company Act of 1956, as amended and regulations promulgated thereunder (the "Bank Holding Company Act") which placed limitations on their ability to control other companies. The Previous Secured Lenders/Warrant Holders requested, and the Company agreed to create a non-voting class of Common Stock, to be designated as "Class B Common Stock". The Warrants constitute the right to purchase Class B Common Stock. The warrants are exercisable solely for shares of Class B Common Stock. However, because any Class B Common Stock issuable pursuant to the Warrants may be sold by the Warrant Holders to entities not subject to the Bank Holding Company Act, or because one or more Warrant Holders may be permitted to own a limited number of voting shares of Company Class A Common Stock, the articles of amendment provide that those shares of Class B Common Stock are convertible into shares of Class A Common Stock, and vice versa, without charge. Marshall T. Reynolds, as the current Warrant Holder is entitled to convert Class B Common Shares into shares of Class A Common Stock.

As of January 31, 2014 the Company had contractual obligations in the form of leases and debt as follows:

Contractual Obligations	Payments Due by Fiscal Year					Residual	Total
	2014	2015	2016	2017	2018		
Non-cancelable operating leases	\$ 528,744	\$ 363,596	\$ 349,849	\$ 289,939	\$ 195,132	\$ 90,088	\$ 1,817,348
Term debt	874,296	9,875,636	3,266	-	-	-	10,753,198
Obligations under capital lease	10,440	14,670	15,574	12,319	-	-	53,003
Debt discount	-	(391,832)	-	-	-	-	(391,832)
Notes payable - related party	-	2,500,000	-	-	-	-	2,500,000
	\$ 1,413,480	\$ 12,362,070	\$ 368,689	\$ 302,258	\$ 195,132	\$ 90,088	\$ 14,731,717

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

8. Industry Segment Information

The Company operates principally in two industry segments organized on the basis of product lines: the production, printing and sale, principally to commercial customers, of printed materials (including brochures, pamphlets, reports, tags, continuous and other forms) and the sale of office products and office furniture including interior design services.

The Company reports segment information in a manner consistent with the way that our management, including our chief operating decision maker, the Company's Chief Executive Officer, assesses performance and makes decisions regarding allocation of resources in accordance with the Segment Disclosures Topic of the ASC.

Our Financial Reporting systems present various data, which is used to operate and measure our operating performance. Our chief operating decision maker utilizes various measures of a segment's profit or loss including historical internal reporting measures and reporting measures based on product lines with operating income (loss) as the key profitability measure within the segment. Product line reporting is the basis for the organization of our segments and is the most consistent measure used by the chief operating decision maker and conforms with the use of segment operating income or (loss) that is the most consistent with those used in measuring like amounts in the Consolidated Financial Statements.

The identifiable assets are reflective of non-GAAP assets reported on the Company's internal balance sheets and are typically adjusted for negative book cash balances, taxes and other items excluded for segment reporting. The assets are classified based on the primary functional segment category as reported on the internal balance sheets. Therefore the actual segment assets may not directly correspond with the segment operating (loss) income reported herein. The Company has certain assets classified as held for sale/discontinued operations representing \$13,010,266 at January 31, 2013 and \$461,443 at January 31, 2014. These assets were part of the printing and newspaper segments prior to the reclassification as assets held for sale/discontinued operations. The total assets reported on the Company's balance sheets as of January 31, 2014 and January 31, 2013 are \$24,971,668 and \$43,815,842. The identifiable assets reported below represent \$24,510,225 and \$30,805,576.

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

2014 Quarter 1	Printing	Office Products & Furniture	Total
Revenues from continuing operations	\$ 9,847,054	\$ 6,890,038	\$ 16,737,092
Elimination of intersegment revenue	(488,446)	(825,948)	(1,314,394)
Consolidated revenues from continuing operations	\$ 9,358,608	\$ 6,064,090	\$ 15,422,698
Operating (loss) from continuing operations	(287,061)	(73,091)	(360,152)
Depreciation & amortization	494,712	26,360	521,072
Capital expenditures	123,979	5,655	129,634
Identifiable assets	17,151,052	7,359,173	24,510,225
Goodwill	-	1,230,485	1,230,485

2013 Quarter 1	Printing	Office Products & Furniture	Total
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Revenues from continuing operations	\$	11,989,511	\$	8,448,257	\$	20,437,768
Elimination of intersegment revenue		(888,031)		(1,239,238)		(2,127,269)
Consolidated revenues from continuing operations	\$	11,101,480	\$	7,209,019	\$	18,310,499
Operating (loss) income from continuing operations		(2,454,091)		210,920		(2,243,171)
Depreciation & amortization		513,361		33,851		547,212
Capital expenditures		72,117		1,483		73,600
Identifiable assets		22,849,996		7,955,580		30,805,576
Goodwill		-		1,230,485		1,230,485

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

A reconciliation of total segment revenue, assets and operating (loss) to consolidated (loss) before income taxes for the three months ended January 31, 2014 and 2013 is as follows:

	Three months ended January 31,	
	2014	2013
Revenues:		
Total segment revenues from continuing operations	\$ 16,737,092	\$ 20,437,768
Elimination of intersegment revenue	(1,314,394)	(2,127,269)
Consolidated revenue from continuing operations	\$ 15,422,698	\$ 18,310,499
Operating (loss) from continuing operations:		
Total segment operating (loss) from continuing operations	\$ (360,152)	\$ (2,243,171)
Interest expense - related party	(20,764)	(20,764)
Interest expense	(263,761)	(1,315,066)
Other income	14,494	9,623
Consolidated (loss) before income taxes from continuing operations	\$ (630,183)	\$ (3,569,378)
Identifiable assets:		
Total segment identifiable assets	\$ 24,510,225	\$ 30,805,576
Elimination of intersegment assets and assets held for sale/discontinued operations	461,443	13,010,266
Total consolidated assets	\$ 24,971,668	\$ 43,815,842

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited) (continued)

9. Fair Value Measurements

There is a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and our own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1 - Quoted market prices in active markets for identical assets or liabilities

Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable; and

Level 3 - Unobservable inputs developed using estimates and assumptions developed by the Company, which reflect those that a market participant would use.

The Company does not believe it is practicable to estimate the fair value of its variable interest-bearing debt and revolving credit facilities related to its primary credit facilities with a private lender and its subordinated debt to a related party due primarily to the fact that an active market for the Company's debt does not exist.

The term debt not discussed herein had a carrying value of approximately \$0.5 million and the Company believes carrying value approximates fair value for this debt based on recent market conditions, collateral support, recent borrowings and other factors.

Cash consists principally of cash on deposit with banks. The Company's cash deposits in excess of federally insured amounts are primarily maintained at a large well-known financial institution.

The carrying amounts of the Company's accounts receivable, accounts payable, accrued payrolls and commissions, taxes accrued and withheld and accrued expenses approximates fair value due to their short-term nature.

Goodwill and other intangible assets are measured on a non-recurring basis using Level 3 inputs. Goodwill is also subject to an annual impairment test. (see Note 10)

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

10. Acquired Intangible Assets and Goodwill

	January 31, 2014		October 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Non-compete agreement	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Customer relationships	2,451,073	1,179,557	2,451,073	1,149,033
Other	564,946	563,112	564,946	558,737
	4,016,019	2,742,669	4,016,019	2,707,770
Unamortizable intangible assets:				
Goodwill	1,737,763	507,278	1,737,763	507,278
	1,737,763	507,278	1,737,763	507,278
Total goodwill and other intangibles	\$ 5,753,782	\$ 3,249,947	\$ 5,753,782	\$ 3,215,048

During the first quarter of 2013 as part of a process of addressing the Company's debt status with its Previous Secured Lenders as well as first quarter 2013 performance to budget, the Company performed a comprehensive reassessment of its initial fiscal year 2013 budget. The Company, as part of this process, identified at least one customer in the printing segment from which it anticipated a substantial revenue decline in the second quarter of 2013 and beyond and associated profitability declines in 2013 and beyond. As a result of this process, it was determined that an impairment test between annual impairment tests was warranted for the printing segment as a result of the potential near term challenges facing the Company, anticipated customer specific revenue decreases and softness in the Company's core West Virginia market. The Company performed Step 1 of the Goodwill impairment test for the printing segment with the assistance of a third party valuation specialist using the income approach and the testing indicated a value less than the carrying value of the segment at January 31, 2013.

As a result of the Step 1 test, the Company determined it was required to proceed to Step 2 of Goodwill Impairment testing for the printing segment in the first quarter of 2013. The Step 2 test results were completed in the second quarter of 2013 with the assistance of a third party valuation specialist and supported the conclusion to record an impairment charge in the first quarter of 2013 of \$2.2 million. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is recognized, in accordance with applicable standards.

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

Amortization expense for the three months ended January 31, 2014 and 2013 was \$35,000 and \$35,000 respectively. Customer relationships are being amortized over a period of 20 years, related to the acquisition of Syscan in 2004. The weighted average remaining life of the Company's amortizable intangible assets was approximately 6 years.

Estimated amortization expense for each of the following years is:

2014	\$ 93,407
2015	122,098
2016	122,098
2017	122,098
2018	122,098
Thereafter	691,551
	\$ 1,273,350

The changes in the carrying amount of goodwill and other amortizing intangibles for the three months ended January 31, 2014 were:

Goodwill:

	Printing	Office Products and Furniture	Total
Balance at October 31, 2013			
Goodwill	\$ 2,226,837	\$ 1,230,485	\$ 3,457,322
Accumulated impairment losses	(2,226,837)	-	(2,226,837)
	-	1,230,485	1,230,485
Goodwill acquired three months ended January 31, 2014			
Goodwill acquired three months ended January 31, 2014	-	-	-
Impairment losses three months ended January 31, 2014			
Impairment losses three months ended January 31, 2014	-	-	-
Balance at January 31, 2014			
Goodwill	2,226,837	1,230,485	3,457,322
Accumulated impairment losses	(2,226,837)	-	(2,226,837)
	\$ -	\$ 1,230,485	\$ 1,230,485

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

Amortizing Intangible Assets (net of amortization expense):

	Printing	Office Products and Furniture	Total
Balance at October 31, 2013			
Amortizing intangible assets	\$ 442,317	\$ 865,932	\$ 1,308,249
Accumulated impairment losses	-	-	-
	442,317	865,932	1,308,249
Amortizing intangible assets acquired three months ended January 31, 2014	-	-	-
Impairment losses three months ended January 31, 2014	-	-	-
Amortization expense	14,525	20,374	34,899
Balance at January 31, 2014			
Amortizing intangible assets	427,792	845,558	1,273,350
Accumulated impairment losses	-	-	-
	\$ 427,792	\$ 845,558	\$ 1,273,350

A summary of impairment charges from continuing operations is included in the table below:

	Three Months Ended January 31,	
	2014	2013
Goodwill	\$-	\$ 2,226,837
Other intangibles	-	-
	\$-	\$ 2,226,837

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

11. Discontinued Operations and Assets Held for Sale

As part of the Company's revised restructuring plan submitted to the Company's secured lenders in July 2012 the Company determined that a division within the printing segment met the criteria of an asset held for sale at July 31, 2012 (Donihe). Therefore, in accordance with applicable accounting guidance the Company has determined the associated assets and liabilities of this division should be classified as assets and liabilities held for sale/discontinued operations at January 31, 2014 and October 31, 2013. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of Donihe are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for all periods presented.

The Company has also identified certain long-lived assets that are being included as a component of assets held for sale for the Merten division ("Merten") which currently retains a sales presence in Cincinnati, Ohio. As part of the Company's revised restructuring plan submitted to the Company's secured lenders in July 2012 the Company determined that certain printing segment assets met the criteria of an asset held for sale of Merten. Therefore, in accordance with applicable accounting guidance the Company has determined certain long-lived assets of this division should be classified as assets held for sale at October 31, 2012 (These assets were sold in December 2012).

In December 2012, the Company completed the sale of substantially all of the property and equipment at Donihe and Merten for \$1,050,000, net of commissions, and in December 2012, the Company completed the sale of Donihe real estate for \$175,000.

The Company identified two Company owned facilities within the printing segment that the Company intended to sell as a result of the Company's Revised Restructuring Plan. These facilities were carried at their carrying amount which the Company believes to currently be lower than the estimated fair value less cost to sell.

The Company sold substantially all of the assets of its Blue Ridge Printing, Co., Inc. ("Blue Ridge") subsidiary on June 25, 2013 to BRP Company, Inc. pursuant to an Asset Purchase Agreement. The Company received approximately \$942,000 net of commissions at closing subsequently reduced by net liquidity adjustments approximating \$22,000. Blue Ridge has historically been accounted for in the Company's printing segment. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of Blue Ridge are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for all periods presented.

On July 12, 2013, the Company's wholly owned subsidiary Champion Publishing, Inc. sold substantially all the assets of its newspaper operations (The "Herald-Dispatch") headquartered in Huntington, West Virginia to HD Media Company, LLC pursuant to an Asset Purchase Agreement. The Company received approximately \$9,700,000 net of selling commissions, and pro-rated taxes. The Herald-Dispatch has historically been accounted for in the Company's former newspaper segment representing this segments only operating entity. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of The Herald Dispatch are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for all periods presented.

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

The following is selected financial information included in net earnings (loss) from discontinued operations for two divisions classified within the printing segment and the Herald-Dispatch previously classified within the newspaper segment until the sale of this segment and reflects interest on estimated debt required to be repaid as a result of these disposal transactions and excludes any general corporate overhead allocations. The interest expense allocated to discontinued operations for the three months ended January 31, 2013, was approximately \$0.2 million.

	Three Months Ended January 31, 2013		
	Printing	Herald-Dispatch	Total
Net sales	\$ 1,282,794	\$ 3,552,242	\$ 4,835,036
Income (loss) from discontinued operations	(351,217)	378,718	27,501
Income tax benefit (expense)	118,761	(142,284)	(23,523)
Gain on sale of discontinued operations	-	-	-
Income tax (expense) on sale	-	-	-
Net earnings (loss) from discontinued operations	(232,456)	236,434	3,978

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

The major classes of assets and liabilities held for sale and of discontinued operations included in the Consolidated Balance Sheets are as follows (see Note 5 for discussion of debt allocated to liabilities held for sale/discontinued operations):

	Held for sale	Discontinued Operations	Total	Held for sale	Discontinued Operations	Total
	January 31, 2014			October 31, 2013		
Assets:						
Accounts Receivable	\$ -	\$ 92,370	\$ 92,370	\$ -	\$ 124,231	\$ 124,231
Inventories	-	-	-	-	-	-
Other current assets	-	-	-	-	-	-
Property and equipment, net	369,073	-	369,073	369,073	-	369,073
Other assets	-	-	-	-	-	-
Total current assets	369,073	92,370	461,443	369,073	124,231	493,304
Property and equipment, net	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total noncurrent assets	-	-	-	-	-	-
Total assets held for sale/discontinued operations	\$ 369,073	\$ 92,370	\$ 461,443	\$ 369,073	\$ 124,231	\$ 493,304
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-	-	-
Accrued payroll and commissions	-	-	-	-	-	-
Taxes accrued and withheld	-	-	-	-	315	315
Accrued expenses	-	-	-	-	-	-
Debt (see Note 5)	-	-	-	-	-	-
Total current liabilities	-	-	-	-	315	315
Total noncurrent liabilities - debt	369,073	92,370	461,443	369,073	123,916	492,989
Total liabilities held for sale/discontinued operations	\$ 369,073	\$ 92,370	\$ 461,443	\$ 369,073	\$ 124,231	\$ 493,304

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

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

Results of Operations

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

	Three Months Ended January 31,				
	2014			2013	
Revenues:					
Printing	\$ 9,358,608	60.7	%	\$ 11,101,480	60.6%
Office products and office furniture	6,064,090	39.3		7,209,019	39.4
Total revenues	15,422,698	100.0		18,310,499	100.0
Cost of sales:					
Printing	7,226,610	46.8		8,240,566	45.0
Office products and office furniture	4,435,766	28.8		4,943,946	27.0
Total cost of sales	11,662,376	75.6		13,184,512	72.0
Gross profit	3,760,322	24.4		5,125,987	28.0
Selling, general and administrative expenses	4,120,474	26.7		5,142,321	28.1
Goodwill impairment	-	0.0		2,226,837	12.2
(Loss) from operations	(360,152)	(2.3)		(2,243,171)	(12.3)
Interest expense - related party	(20,764)	(0.1)		(20,764)	(0.1)
Interest expense	(263,761)	(1.8)		(1,315,066)	(7.2)
Other income	14,494	0.1		9,623	0.1
(Loss) before taxes	(630,183)	(4.1)		(3,569,378)	(19.5)
Income tax benefit	-	0.0		23,523	0.1
Net (loss) continuing operations	(630,183)	(4.1)%		(3,545,855)	(19.4)%
Discontinued operations	-			3,978	
Net (loss)	\$ (630,183)			\$ (3,541,877)	

Champion Industries, Inc. and Subsidiaries

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

Three Months Ended January 31, 2014 Compared to Three Months Ended January 31, 2013 (Continuing Operations)

Revenues

Total revenues decreased 15.8% in the first quarter of 2014 compared to the same period in 2013, to \$15.4 million from \$18.3 million. Printing revenue decreased \$1.7 million or 15.7% when compared to the first quarter of 2013. The printing revenue reduction was reflective of revenue decreases within most of the Company's operating divisions driven primarily by certain customer specific turnover, sales and other personnel turnover prompted in part by various restructuring actions required by the Previous Secured Lenders and general market conditions. Office products and office furniture revenue decreased 15.9% in the first quarter of 2014 to \$6.1 million from \$7.2 million in the first quarter of 2013. Office products and office furniture sales decreased in the first quarter of 2014 when compared to the first quarter of 2013, due to lower office furniture sales and a reduction in office products related sales. The reasons for reductions mirrored, in part, the reasons for the sales reductions in the printing segment.

The Company was notified by the State of West Virginia on May 31, 2013 that it was cancelling the Company's state contract for office furniture, panel systems, chairs, etc. effective July 1, 2013. This was due, the Company believes, as part of an overall review of all secondary bid contracts within the state and was not a specific action against the Company and was related to numerous product categories and services. West Virginia is currently in the process of studying purchasing regulations and may have future modifications in future periods. The secondary bid process has historically allowed state agencies to buy products and services quickly, bypassing formal and comprehensive competitive bid purchasing protocols. This change does not preclude the Company from selling office furniture to state agencies and the Company has continued to pursue and be awarded state business subsequent to this change.

Cost of Sales

Total cost of sales decreased 11.5% in the first quarter of 2014, to \$11.7 million from \$13.2 million in the first quarter of 2013. Printing cost of sales in the first quarter of 2014 decreased over the prior year but increased as a percentage of printing sales from 74.2% in 2013 to 77.2% in 2014. The printing gross margin dollars decreased when compared to the comparable period in the prior year due to lower sales coupled with gross margin percent compression. Office products and office furniture cost of sales decreased in 2014 from 2013 levels due to lower sales partially offset by higher cost of goods sold as a percentage of office products and office furniture sales of 68.6% in 2013 to 73.1% in 2014, thus representing gross margin percent compression in the office products and office furniture segment.

Operating Expenses

In the first quarter of 2013, selling, general and administrative (SG&A) expenses decreased on a gross dollar basis to \$4.1 million from \$5.1 million in 2013, a decrease of \$1.0 million or 19.9%. As a percentage of total sales, the SG&A decreased on a quarter to quarter basis in 2014 to 26.7% from 28.1% in 2013. The decrease in SG&A in total was reflective of reduced professional fees in 2014 and lower personnel and related expenses associated in part with various restructuring initiatives implemented by the Company.

During the first quarter of 2013, as part of a process of addressing the Company's debt status with its Previous Secured Lenders as well as first quarter 2013 performance to budget, the Company performed a comprehensive reassessment of its initial fiscal year 2013 budget. The Company as part of this process identified at least one customer in the printing segment from which it anticipated a substantial revenue decline in the second quarter of 2013 and beyond and associated profitability declines in 2013 and beyond. As a result of this process, it was determined that an impairment

test between annual impairment tests was warranted for the printing segment as a result of the potential near term challenges facing the Company, anticipated customer specific revenue decreases and softness in the Company's core West Virginia market. The Company performed Step 1 of the Goodwill impairment test for the printing segment with the assistance of a third party valuation specialist using the income approach and the testing indicated a value less than the carrying value of the segment at January 31, 2013.

As a result of the Step 1 test, the Company determined it was required to proceed to Step 2 of goodwill impairment testing for the printing segment in the first quarter of 2013. The Step 2 test results were completed in the second quarter of 2013 with the assistance of a third party valuation specialist and supported the conclusion to record an impairment charge in the first quarter of 2013 of \$2.2 million. Subsequent reversal of a previously recognized goodwill impairment loss is prohibited once the measurement of that loss is recognized, in accordance with applicable standards.

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

Segment Operating (Loss) Income

The printing segment reported an operating loss in the first quarter of 2014 of \$(0.3) million compared to an operating loss of \$(2.5) million in the first quarter of 2013. The decrease in operating loss was primarily attributable to pre-tax goodwill impairment charges of \$2.2 million in 2013. The decrease in operating loss was partially offset by gross profit percent compacting and reduced gross profit contribution due to lower sales and margin compression partially offset by lower SG&A expenses which were primarily reflective of lower personnel and related expenses associated in part with various restructuring initiatives implemented by the Company and reduced professional fees in 2014.

The office products and office furniture segment reported an operating loss of \$(0.1) million in the first quarter of 2014 compared to income of \$0.2 million in the first quarter of 2013. This represented a decrease in profitability of approximately \$0.3 million. This decrease is primarily the result of lower gross profit contribution on reduced sales and gross profit compaction partially offset by lower selling, general and administrative expenses in the first quarter of 2014, when compared to the comparable period of the prior year.

(Loss) income from Operations

The loss from operations in the first quarter of 2014 was \$(0.4) million compared to a loss from operations of \$(2.2) million in the first quarter of 2013. This change is primarily the result of a \$2.2 million goodwill impairment charge in the printing segment in 2013.

Other Income (expense)

Other (expense), net decreased approximately \$1.1 million, primarily due to lower interest expense in the first quarter of 2014 due to lower interest rates and lower average borrowings and lower amortization expenses associated with debt discount in 2014 compared to 2013.

Income Taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers a multitude of factors in assessing the utilization of its deferred tax assets including the reversal of deferred tax liabilities, projected future taxable income and other assessments, which may have an impact on financial results. The Company had determined that a full valuation allowance was warranted at October 31, 2013. The Company reassessed its previous determination regarding its valuation allowance and determined that a full valuation allowance was warranted at January 31, 2014. The amount of deferred tax asset considered realizable could be adjusted in future periods based on a multitude of factors, including but not limited to a reassessment of our credit position, and such adjustments may be material to the Consolidated Financial Statements.

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

The Company's effective tax rate for continuing operations for 2014 was 0.0% compared to an effective tax benefit of 0.7% for 2013. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate and may be impacted by increases or decreases in the valuation allowance for deferred tax assets. The Company recorded a tax benefit from continuing operations in 2013 resulting from the application of certain provisions of ASC 740 regarding interim implications of intra-period tax allocations for discontinued operations when there is a loss from continuing operations to maintain financial statement neutrality and to recognize the tax components between continuing operations and discontinued operations on a discrete basis. There is no incremental income tax for continuing operations or discontinued operations in 2014 due to losses in continuing operations and no results for discontinued operations in 2014 and the Company's total current year expected income tax provision of zero.

Net (loss)

Net (loss) for the first quarter of 2014 was \$(0.6) million compared to a net loss of \$(3.5) million in the first quarter of 2013. Basic and diluted (loss) per share for the three months ended January 31, 2014 and 2013 were a loss of \$(0.06) and of \$(0.31).

Discontinued Operations

The Company reported net income from discontinued operations of \$0 and \$4,000 for the three months ended January 31, 2014 and 2013. The 2013 results were impacted by various restructuring charges of approximately \$144,000 associated with the sale of substantially all of the property, plant and equipment of Donihe Graphics Inc. and the associated costs to cease production at this facility including the liquidation of certain inventory. The divisions classified as discontinued operations were sold in 2013 and thus there were no operating results to report in 2014.

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

Inflation and Economic Conditions

Management believes that the effect of inflation on the Company's operations has not been material and will continue to be immaterial for the foreseeable future. The Company does not have long-term contracts; therefore, to the extent permitted by competition, it has the ability to pass through to its customers most cost increases resulting from inflation, if any. In addition, the Company is not particularly energy dependent; therefore, an increase in energy costs should not have a significant impact on the Company.

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

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. In addition, recent restructuring initiatives, asset disposals and other actions may have an impact on historical trends due to product mix and operational charges. The Company is unable to predict if this trend has fundamentally shifted until such time a more stable economic climate is present and the Company's continuing operations are assessed in light of its restructuring initiatives.

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

Liquidity and Capital Resources

Statement of Cash Flows (Continuing Operations)

Net cash (used in) operations for the three months ended January 31, 2014, was \$(1.0) million compared to net cash provided by operations of \$2.9 million during the same period in 2013. This change in net cash from operations is due primarily to changes in assets and liabilities.

Net cash (used in) provided by investing activities for the three months ended January 31, 2014 was \$(0.1) million compared to \$0.8 million during the same period in 2013. The net cash used in investing activities during the first three months of 2014 primarily related to the purchase of equipment and vehicles. The net cash provided by investing activities in the first three months of 2013 was primarily related to the sale of equipment at the Company's Merten division.

Net cash (used in) financing activities for the three months ended January 31, 2014 was \$(0.1) million compared to \$(1.8) million during the same period in 2013. In 2014, the net cash used in financing activities primarily related to scheduled payments of long term debt. In 2013, the net cash used in financing activities primarily related to payments made on Bullet Loan A resulting from certain assets sales as well as scheduled payments of debt.

Statement of Cash Flows (Discontinued Operations)

The Company has reported cash flows from discontinued operations as discrete single items of operating, investing and financing activities.

Net cash provided by operating activities of discontinued operations were \$32,000 and \$135,000 in 2014 and 2013.

Net cash provided by investing activities of discontinued operations were \$0 and \$0.4 million in 2014 and 2013. In 2013, the Company sold certain assets at its Donihe division for approximately \$0.4 million which were used to pay debt.

Net cash (used in) financing activities of discontinued operations was \$0 and \$(0.4) million for 2014 and 2013. The net cash used in financing activities represented debt payments from the sale of various assets of Donihe.

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 former newspaper and the 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 had 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 had 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 had paid approximately \$65.6 million in principal through September 30, 2013 to the Previous Secured Lenders. Thus, the Company had demonstrated the ability to generate cash flow and has continued to service its debt commitments under the most difficult conditions in recent history.

Champion Industries, Inc. and Subsidiaries

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

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

Prior to the October 2013 Credit Agreement the Company operated under the provisions of the May 2013 Forbearance Agreement effective May 31, 2013 which expired September 30, 2013 as amended August 28, 2013. The May 2013 Forbearance Agreement required the Company to achieve a multitude of targeted goals and covenants to remain in compliance. Many of these requirements were beyond the control of the Company although at the date of the agreement, the Company determined there was at least a reasonable possibility of achieving compliance through the September 30, 2013 contractual maturity date. The Company was also required, under the terms of the May 2013 Forbearance Agreement, to comply with financial covenants, which are non-GAAP financial measures. Prior to the October 2013 Credit Agreement and primarily as a result of the credit situation with the Previous Secured Lenders there was significant uncertainty about our ability to operate as a going concern. In recent years, the Company operated for extended periods both in default and under forbearance agreements as it navigated 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 segment and newspaper segment (now classified as a discontinued operation), 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 Previous Secured Lenders had expressed a desire to have lower leverage associated with various earnings measures related to funded indebtedness. The end result of these actions was the Company was impacted operationally and financially by the numerous actions required in part as a result of the numerous Credit and Forbearance Agreements with the Previous Secured Lenders. These actions strained resources operationally and financially including trade vendor challenges. Therefore, three primary 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 and the residual impact of the Previous Secured Lender credit requirements on our current operations.

The Company's October 2013 Credit Agreement expires April 1, 2015. The Company intends to primarily focus its efforts operationally after an extended period of challenges with the Previous Secured Lenders. The Company also intends to identify options regarding a longer term financing solution for its existing debt and evaluating liquidity options that may be available.

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

As a result of the Company's current credit situation and the challenges within the economic climate faced by the Company, the Company faces substantial liquidity related challenges for fiscal 2014 and beyond. The liquidity factors we face include:

- Implementation of an operating plan to rationalize and improve our cost and operating structure.
- Management of our receipts and disbursements to improve days sales outstanding for trade receivables and manage our days outstanding for trade payables as well as maintain our trade credit availability.
- Managing our credit relationships.
- Carefully monitor capital expenditures to assure cash flow is maximized.
- Manage our customer relationships in light of the ongoing credit challenges faced by the Company
- The potential for our interest costs and other credit related expenses to exceed our ability to generate sufficient cash to meet other obligations including scheduled principal amortization payments to secured lenders.
- The scheduled maturity of the Company's Credit Facilities on April 1, 2015.
- Operating the Company on a working capital basis without a revolving line of credit.

As of January 31, 2014, the Company had a \$0.2 million book cash balance, compared with October 31, 2013 when the Company had a \$1.4 million book cash balance. The working capital as of October 31, 2013 was \$5.7 million, and working capital of \$5.5 million at January 31, 2014.

The Company had historically used cash generated from operating activities and debt to finance capital expenditures. Management plans to continue making required investments in equipment based on available liquidity. For the foreseeable future, including through Fiscal 2014, the Company's ability to fund operations, meet debt service requirements and make planned capital expenditures is contingent on the Company's ability to manage its working capital and to maintain sufficient trade credit availability. 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 credit facility which matures April 1, 2015 and anticipates the need to refinance the October 2013 Credit Agreement prior to maturity.

The Company prior to the October 2013 Credit Agreement had available a line of credit which was subject to various Credit and Forbearance Agreement provisions as well as borrowing base limitations and reserves and minimum excess availability thresholds pursuant to applicable agreements.

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

The Company, various Company subsidiaries, as Guarantors, Marshall T. Reynolds, as shareholder and Big 4 Investments, LLC ("Administrative Agent and Lender") as Lender and Administrative Agent entered into a Third Amended and Restated Credit Agreement dated October 7, 2013. Administrative Agent and Lender purchased the Company's outstanding syndicated debt from Fifth Third Bank and the other Lenders ("Previous Secured Lenders") for a price of \$10.0 million. The Administrative Agent and Lender then simultaneously entered into the October 2013 Credit Agreement with the Company pursuant to the provisions of Term Note A for \$10.0 million and related Guaranty Agreement and Stock Pledge and Security Agreement all dated October 7, 2013. The indebtedness immediately prior to the note sale reflected a balance pursuant to the Loan Purchase Agreement between Administrative Agent and Lender and the Previous Secured Lenders of approximately \$19.9 million representing Term Loan A, Term Loan B and Revolving Loans plus accrued deferred fee and accrued interest of approximately \$1.2 million.

The October 2013 Credit Agreement and related Term Note A, Guaranty Agreement and Stock Pledge and Security Agreement as further described herein amended various provisions of the Restated Credit Agreement dated October 19, 2012, including but not limited to:

October 2013 Credit Agreement maturity of April 1, 2015.

Existing debt restructured from Term Loan A, Term Loan B, and Revolving Credit Facility to Term Note A in the amount of \$10,000,000.

The Company's debt will not have a revolving credit facility component.

Interest rate at the Wall Street Journal prime rate of interest plus two percent.

Principal payments due monthly at \$50,000 per month.

\$500,000 maturity or prepayment premium.

Financial covenant of maximum capital expenditures of \$3,000,000 during any fiscal year.

Personal guaranty of Marshall T. Reynolds.

Stock Pledge and Security Agreement providing a third party credit enhancement to support the credit facility underwritten by the Administrative Agent.

In consideration for the personal Guaranty Agreement of Marshall T. Reynolds and Stock Pledge and Security Agreement, the warrants held by the Previous Secured Lenders were assigned to Marshall T. Reynolds. The warrants represent \$0.001 per share warrants issued for up to 30% (on a post-exercise basis) of the outstanding common stock of the Company in the form of non-voting Class B common stock and associated Investor Rights Agreement.

The Company reviewed applicable GAAP and determined that extinguishment accounting should be applied in relation to the October 2013 Credit Agreement.

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

Environmental Regulation

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

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

Special Note Regarding Forward-Looking Statements

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

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

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

ITEM 4. Controls and Procedures

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

(b) Changes in Internal Controls. There have been no changes in our internal controls over financial reporting that occurred during the first three months of fiscal year 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes in risk factors from disclosures previously reported in our annual report on Form 10-K for the fiscal year ended October 31, 2013.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

a) Exhibits:

- | | | |
|--------|--|-----------------------------------|
| (31.1) | Principal Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley act of 2002 - Marshall T. Reynolds | Exhibit 31.1 Page Exhibit 31.1-p1 |
| (31.2) | Principal Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley act of 2002 - Todd R. Fry | Exhibit 31.2 Page Exhibit 31.2-p1 |
| (32) | Marshall T. Reynolds and Todd R. Fry Certification Pursuant to | Exhibit 32 Page Exhibit 32-p1 |

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: March 14, 2014

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

Date: March 14, 2014

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

