

CHAMPION INDUSTRIES INC  
Form 10-Q  
March 08, 2006

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, 2006

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-21084

**Champion Industries, Inc.**

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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

Class	Outstanding at January 31, 2006
Common stock, \$1.00 par value per share	9,745,913 shares

**Champion Industries, Inc.**

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

<b>ASSETS</b>	<b>January 31, 2006 (Unaudited)</b>	<b>October 31, 2005 (Audited)</b>
Current assets:		
Cash and cash equivalents	\$ 4,036,696	\$ 3,661,622
Accounts receivable, net of allowance of \$1,358,000 and \$1,410,000	20,658,112	19,300,453
Inventories	10,709,325	11,079,726
Other current assets	1,133,544	629,381
Deferred income tax assets	1,168,526	1,168,526
Total current assets	37,706,203	35,839,708
Property and equipment, at cost:		
Land	2,023,375	2,006,375
Buildings and improvements	8,418,486	8,368,720
Machinery and equipment	44,220,645	43,668,900
Equipment under capital leases	-	426,732
Furniture and fixtures	3,474,334	3,492,535
Vehicles	3,470,740	3,629,268
	61,607,580	61,592,530
Less accumulated depreciation	(43,684,812)	(42,894,910)
	17,922,768	18,697,620
Cash surrender value of officers' life insurance	1,117,484	1,117,484
Goodwill	2,060,786	2,060,786
Other intangibles, net of accumulated amortization	3,607,083	3,697,368
Other assets	291,422	232,204
	7,076,775	7,107,842
Total assets	\$ 62,705,746	\$ 61,645,170

See notes to consolidated financial statements.

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

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>January 31, 2006 (Unaudited)</b>	<b>October 31, 2005 (Audited)</b>
Current liabilities:		
Accounts payable	\$ 3,880,690	\$ 3,584,323
Accrued payroll	1,478,890	1,714,078
Taxes accrued and withheld	1,338,969	1,106,910
Accrued income taxes	896,100	681,763
Accrued expenses	936,967	987,228
Current portion of long-term debt:		
Notes payable	1,665,843	1,667,797
Capital lease obligations	-	16,483
Total current liabilities	10,197,459	9,758,582
Long-term debt, net of current portion:		
Notes payable, line of credit	2,000,000	1,612,000
Notes payable, term	4,723,943	5,148,503
Other liabilities	388,807	388,930
Deferred income tax liabilities	3,984,934	3,984,934
Total liabilities	21,295,143	20,892,949
Shareholders' equity:		
Common stock, \$1 par value, 20,000,000 shares authorized; 9,745,913 shares issued and outstanding	9,745,913	9,745,913
Additional paid-in capital	22,297,670	22,297,670
Retained earnings	9,367,020	8,708,638
Total shareholders' equity	41,410,603	40,752,221
	\$	\$
Total liabilities and shareholders' equity	62,705,746	61,645,170

See notes to consolidated financial statements.

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

	<b>Three Months Ended January 31,</b>	
	<b>2006</b>	<b>2005</b>
Revenues:		
	\$	\$
Printing	<b>26,165,649</b>	24,436,621
Office products and office furniture	<b>10,126,059</b>	10,003,370
Total revenues	<b>36,291,708</b>	34,439,991
Cost of sales:		
Printing	<b>18,550,540</b>	17,771,263
Office products and office furniture	<b>7,143,748</b>	7,157,955
Total cost of sales	<b>25,694,288</b>	24,929,218
Gross profit	<b>10,597,420</b>	9,510,773
Selling, general and administrative expenses	<b>8,713,667</b>	8,977,680
Hurricane and relocation costs, net of recoveries	(257,960)	-
Income from operations	<b>2,141,713</b>	533,093
Other income (expense):		
Interest income	<b>6,742</b>	5,066
Interest expense	<b>(171,741)</b>	(137,365)
Other	<b>(114)</b>	62,673
	<b>(165,113)</b>	(69,626)
Income before income taxes	<b>1,976,600</b>	463,467
Income tax expense	<b>(830,922)</b>	(200,341)
Net income	<b>\$ 1,145,678</b>	\$ 263,126
Earnings per share:		
Basic	<b>\$ 0.12</b>	\$ 0.03
Diluted	<b>\$ 0.12</b>	\$ 0.03
Weighted average shares outstanding:		
Basic	<b>9,746,000</b>	9,734,000
Diluted	<b>9,831,000</b>	9,802,000
Dividends per share	<b>\$ 0.05</b>	\$ 0.05

See notes to consolidated financial statements.

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

	<b>Three Months Ended January 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,145,678	\$ 263,126
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,050,141	1,152,111
Loss (gain) on sale of assets	6,903	(4,099)
Increase in deferred compensation	894	1,787
Bad debt expense	221,845	114,224
Hurricane and relocation costs, net of recoveries	(257,960)	-
Changes in assets and liabilities:		
Accounts receivable	(1,279,504)	3,238,390
Inventories	370,401	170,716
Other current assets	(504,163)	(458,741)
Accounts payable	254,330	308,164
Accrued payroll	(235,191)	(403,997)
Taxes accrued and withheld	232,059	119,167
Income taxes	214,337	175,341
Accrued expenses	(50,261)	69,561
Other liabilities	(1,017)	(961)
Net cash provided by operating activities	1,168,492	4,744,789
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(234,421)	(855,535)
Proceeds from sales of property	45,513	24,223
Other assets	(62,218)	106,693
Net cash used in investing activities	(251,126)	(724,619)
<b>Cash flows from financing activities:</b>		
Borrowings on line of credit	2,808,000	993,000
Payments on line of credit	(2,420,000)	(1,493,000)
Principal payments on long-term debt	(442,996)	(438,890)
Dividends paid	(487,296)	(486,695)
Net cash used in financing activities	(542,292)	(1,425,585)
Net increase in cash and cash equivalents	375,074	2,594,585
Cash and cash equivalents, beginning of period	3,661,622	1,745,457
Cash and cash equivalents, end of period	\$ 4,036,696	\$ 4,340,042

See notes to consolidated financial statements.

**Champion Industries, Inc. and Subsidiaries****Notes to Consolidated Financial Statements (Unaudited)****January 31, 2006****1. Basis of Presentation and Business Operations**

The foregoing financial information has been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and rules and regulations of the Securities and Exchange Commission for interim financial reporting. The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In the opinion of management, the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP. These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended October 31, 2005, and related notes thereto contained in Champion Industries, Inc.'s Form 10-K dated January 16, 2006. 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, 2005 was derived from our audited financial statements.

Certain prior-year amounts have been reclassified to conform to the current year financial statement presentation.

**2. Earnings per Share**

Basic earnings per share is computed by dividing net income by the weighted average shares of common stock outstanding for the period and excludes any dilutive effects of stock options. Diluted earnings per share is computed by dividing net income by the weighted average shares of common stock outstanding for the period plus the shares that would be outstanding assuming the exercise of dilutive stock options. The dilutive effect of stock options was 85,000 and 68,000 shares for the three months ended January 31, 2006 and 2005.

**3. Inventories**

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

Inventories consisted of the following:

	<b>January 31, 2006</b>	<b>October 31, 2005</b>
Printing:		
Raw materials	\$ 2,176,640	\$ 2,198,882
Work in process	1,748,990	1,766,862
Finished goods	3,972,447	4,013,041
Office products and office furniture	2,811,248	3,100,941
	<b>\$ 10,709,325</b>	<b>\$ 11,079,726</b>

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

**4. Long-Term Debt**

Long-term debt consisted of the following:

	<b>January 31, 2006</b>	<b>October 31, 2005</b>
Secured term note payable	\$ 2,797,120	\$ 3,024,861
Installment notes payable to banks	3,592,666	3,791,439
Capital lease obligations	-	16,483
	<b>6,389,786</b>	<b>6,832,783</b>
Less current portion	<b>1,665,843</b>	1,684,280
Long-term debt, net of current portion	<b>\$ 4,723,943</b>	<b>\$ 5,148,503</b>

The Company has an unsecured revolving line of credit with a bank for borrowings to a maximum of \$10,000,000 with interest payable monthly at the prime rate of interest. The line of credit expires in July 2008 and contains certain restrictive financial covenants. The Company had outstanding borrowings under this facility of \$2.0 million and \$1.6 million at January 31, 2006 and October 31, 2005.

The Company has an unsecured revolving line of credit with a bank for borrowings to a maximum of \$1,000,000 with interest payable monthly at the Wall Street Journal prime rate. The line of credit expires in April 2007 and contains certain financial covenants. There were no borrowings outstanding under this facility at January 31, 2006 and October 31, 2005.

There were no non-cash financing activities for the three months ended January 31, 2006 and 2005.

**5. Shareholders' Equity**

The Company paid a dividend of five cents per share on December 30, 2005 to stockholders of record on December 9, 2005. Also, the Company declared a dividend of five cents per share to be paid on March 27, 2006 to stockholders of record on March 10, 2006.



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

**6. Commitments and Contingencies**

As of January 31, 2006 the Company had contractual obligations in the form of leases and debt as follows:

Contractual Obligations	Payments Due by Fiscal Year						Residual	Total
	2006	2007	2008	2009	2010			
Non-cancelable operating leases	\$ 780,948	\$ 869,883	\$ 679,224	\$ 295,340	\$ 42,000	\$ -	\$ 2,667,395	
Revolving line of credit	-	-	2,000,000	-	-	-	2,000,000	
Term debt	1,403,369	1,776,988	1,714,825	469,954	1,024,650	-	6,389,786	
	\$ 2,184,317	\$ 2,646,871	\$ 4,394,049	\$ 765,294	\$ 1,066,650	\$ -	\$ 11,057,181	

**7. Accounting for Stock-Based Compensation**

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

The Company did not issue any employee stock options for the three months ended January 31, 2006 and 2005.

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

**8. Acquisitions**

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

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

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

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

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

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

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

The Company has filed insurance claims related to both actual and contingent losses. The Company received an advance to claim from an insurance Company of \$300,000 in February 2006. The Company recorded this payment as an insurance recovery and related receivable at January 31, 2006.

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

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

The following table summarizes the cumulative costs incurred as of January 31, 2006 relating to Hurricane Katrina.

Personnel	\$ 88,423
Plant	545,077
Allowance for doubtful accounts	208,310
Moving and relocation costs	221,229
Total pre-tax hurricane expense	1,063,039
Insurance recoveries	300,000
Cumulative impact of Hurricane Katrina, net	\$ 763,039

The Company recorded costs of \$1,020,999 for the three months ended October 31, 2005 and costs of \$42,040 and recoveries of \$300,000 for the three months ending January 31, 2006 relating to Hurricane Katrina.

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



**10. Industry Segment Information**

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

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

<b>2006 Quarter 1</b>	<b>Office Products</b>		
	<b>Printing</b>	<b>&amp; Furniture</b>	<b>Total</b>
Revenues	\$ 29,688,029	\$ 12,462,284	\$ 42,150,313
Elimination of intersegment revenue	(3,522,380)	(2,336,225)	(5,858,605)
Consolidated revenues	\$ 26,165,649	\$ 10,126,059	\$ 36,291,708
Operating income	1,447,748	693,965	2,141,713
Depreciation & amortization	1,015,098	35,043	1,050,141
Capital expenditures	212,243	22,178	234,421
Identifiable assets	51,323,390	11,382,356	62,705,746
Goodwill	1,774,344	286,442	2,060,786
<b>2005 Quarter 1</b>	<b>Office Products</b>		
	<b>Printing</b>	<b>&amp; Furniture</b>	<b>Total</b>
Revenues	\$ 28,085,977	\$ 11,528,769	\$ 39,614,746
Elimination of intersegment revenue	(3,649,356)	(1,525,399)	(5,174,755)
Consolidated revenues	\$ 24,436,621	\$ 10,003,370	\$ 34,439,991
Operating income	271,729	261,364	533,093
Depreciation & amortization	1,072,454	79,657	1,152,111
Capital expenditures	782,748	72,787	855,535
Identifiable assets	53,108,233	10,148,254	63,256,487
Goodwill	1,774,344	286,442	2,060,786



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

A reconciliation of total segment revenues and of total segment operating income to income before income taxes, for the three months ended January 31, 2006 and 2005, is as follows:

	<b>Three Months Ended January 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Revenues:</b>		
Total segment revenues	\$ 42,150,313	\$ 39,614,746
Elimination of intersegment revenue	(5,858,605)	(5,174,755)
<b>Consolidated revenue</b>	<b>\$ 36,291,708</b>	<b>\$ 34,439,991</b>
<b>Operating income:</b>		
Total segment operating income	\$ 2,141,713	\$ 533,093
Interest income	6,742	5,066
Interest expense	(171,741)	(137,365)
Other (expense) income	(114)	62,673
<b>Consolidated income before income taxes</b>	<b>\$ 1,976,600</b>	<b>\$ 463,467</b>
<b>Identifiable assets:</b>		
Total segment identifiable assets	\$ 62,705,746	\$ 63,256,487
Elimination of intersegment assets	—	—
<b>Total consolidated assets</b>	<b>\$ 62,705,746</b>	<b>\$ 63,256,487</b>

### Champion Industries, Inc. and Subsidiaries

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

##### Results of Operations

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

	Three Months Ended January 31,			
	2006		2005	
	(\$ in thousands)			
<b>Revenues:</b>				
Printing	\$ 26,166	72.1%	\$ 24,437	71.0%
Office products and office furniture	10,126	27.9	10,003	29.0
Total revenues	36,292	100.0	34,440	100.00
<b>Cost of sales:</b>				
Printing	18,550	51.1	17,771	51.6
Office products and office furniture	7,144	19.7	7,158	20.7
Total cost of sales	25,694	70.8	24,929	72.3
Gross profit	10,598	29.2	9,511	27.7
Selling, general and administrative expenses	8,714	24.0	8,978	26.1
Hurricane and relocation costs, net of recoveries	(258)	(0.7)	-	
Income from operations	2,142	5.9	533	1.6
Interest income	7	0.1	5	0.0
Interest expense	(172)	(0.5)	(137)	(0.4)
Other income	-	0.0	62	0.2
Income before taxes	1,977	5.5	463	1.4
Income taxes	(831)	(2.3)	(200)	(0.6)
Net income	\$ 1,146	3.2%	\$ 263	0.8%

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

	Three Months Ended January 31,	
	2006	2005
Net income	\$ 1,146,000	\$ 263,000
Insurance recoveries, net of expenses	150,000	-
Core net income	\$ 996,000	\$ 263,000





**Champion Industries, Inc. and Subsidiaries**

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

**Three Months Ended January 31, 2006 Compared to Three Months Ended January 31, 2005**

*Revenues*

Total revenues increased 5.4% in the first quarter of 2006 compared to the same period in 2005 from \$34.4 million to \$36.3 million. Printing revenue increased 7.1% in the first quarter of 2006 to \$26.2 million from \$24.4 million in the first quarter of 2005. Office products and office furniture revenue increased 1.2% in the first quarter of 2006 to \$10.1 million from \$10.0 million in the first quarter of 2005. The increase in printing sales was primarily due to organic growth since there were no new acquisitions since the fourth quarter of 2004.

*Cost of Sales*

Total cost of sales increased 3.1% in the first quarter of 2006 to \$25.7 million from \$24.9 million in the first quarter of 2005. Printing cost of sales in the first quarter of 2006 increased \$779,000 over the prior year and decreased as a percentage of printing sales from 72.7% in 2005 to 70.9% in 2006 primarily due to lower material and outside purchase costs as a percentage of sales. The printing gross margin dollar increase resulted from both increased sales volume and lower material and outside purchase costs as percentage of sales. Office products and office furniture cost of sales decreased slightly in 2006 from 2005 levels and decreased as a percent of sales from 71.6% in 2005 to 70.6% in 2006. The decrease in office products and office furniture cost of sales as a percent of sales is reflective of increased margins due in part to wholesale pricing factors at Syscan for office supplies.

*Operating Expenses*

In the first quarter of 2006, selling, general and administrative expenses decreased on a gross dollar basis to \$8.7 million from \$9.0 million in 2005, a decrease of \$264,000 or 2.9%. As a percentage of sales, the expenses decreased on a quarter to quarter basis in 2006 to 24.0% from 26.1% in 2005 of total sales.

The decrease in selling, general and administrative expenses is primarily the result of the consolidation of Chapman Printing Charleston and Syscan in 2005, the closing of the Company's facility in Jackson, Mississippi and the consolidation of the Company's New Orleans plant into the Company's Baton Rouge facility.

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

The Company has filed insurance claims related to both actual and contingent losses. The Company received an advance to claim payment from an insurance Company of \$300,000 in February 2006. The Company recorded this payment as an insurance recovery and related receivable at January 31, 2006. The Company recorded additional charges of approximately \$42,000 in the first quarter of 2006 associated with Hurricane Katrina.

The Company is currently unable to accurately assess the short and long term effects of Hurricane Katrina on its business and on the macro operating environment in the Gulf States in which the Company operates.

*Income from Operations and Other Income and Expenses*

Income from operations increased in the first quarter of 2006 to \$2.1 million from \$533,000 in the first quarter of 2005. This increase is the result of increased sales and gross profit and gross profit percent, coupled with a decrease in selling, general and administrative expenses (S,G & A) and a decrease in S,G & A as a percent of sales. Other expense (net), increased approximately \$95,000 from 2005 to 2006 primarily due to decreases in other income and increases in interest expense resulting from increased interest rates.

**Champion Industries, Inc. and Subsidiaries**

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

*Income Taxes*

The Company's effective income tax rate was 42.0% for the first quarter of 2006 and 43.2% for the first quarter of 2005. The decrease in income taxes as a percentage of income before taxes is primarily related to improved absorption regarding the nondeductibility of certain selling related expenses. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate.

*Net Income*

Net income for the first quarter of 2006 was \$1,146,000 compared to net income of \$263,000 in the first quarter of 2005. Basic and diluted earnings per share for the three months ended January 31, 2006 and 2005 were \$0.12 and \$0.03. The Company reported core net income of \$996,000 or \$0.10 per share on a basic and diluted basis for the three months ended January 31, 2006. Core net income does not include the insurance recovery, net of expenses. (See Explanatory Table in "Results of Operations" section.)

**Inflation and Economic Conditions**

Management believes that the effect of inflation on the Company's operations has not been material and will continue to be immaterial for the foreseeable future. The Company does not have long-term sales and purchase contracts; therefore, to the extent permitted by competition, it has the ability to pass through to the customer most cost increases resulting from inflation, if any.

**Seasonality**

Historically, the Company has experienced a greater portion of its profitability in the second and fourth quarters than in the first and third quarters. The second quarter generally reflects increased orders for printing of corporate annual reports and proxy statements. A post-Labor Day increase in demand for printing services and office products coincides with the Company's fourth quarter.

**Liquidity and Capital Resources**

Net cash provided by operations for the three months ended January 31, 2006, was \$1.2 million compared to net cash provided by operations of \$4.7 million during the same period in 2005. This change in net cash from operations is due primarily to timing changes in assets and liabilities, including an increase in accounts receivable in 2006 compared to a decrease in accounts receivable in 2005 and an increase in net income during the first quarter of 2006 compared to the first quarter of 2005.

Net cash used in investing activities for the three months ended January 31, 2006 was \$251,000 compared to \$725,000 during the same period in 2005. The net cash used in investing activities during the first three months of 2006 and 2005, primarily relates to equipment and vehicle purchases.

Net cash used in financing activities for the three months ended January 31, 2006 was \$542,000 compared to \$1.4 million during the same period in 2005. This change is primarily due to net borrowings on the Company's line of credit of \$388,000 compared with net payments on the Company's line of credit of approximately \$500,000 in 2005.

The Company's off balance sheet arrangements at January 31, 2006 relate to the Syscan acquisition and are associated with potential contingent purchase price consideration of \$1.5 million payable in October 2006 and a put option from Williams Land Corporation to sell a building to the Company for \$1.5 million. This option may be exercised no later than 60 days prior to the end of the lease and closing of said purchase cannot exceed 45 days from the end of the lease. The lease term concludes effective September 1, 2009.

Working capital on January 31, 2006 was \$27.5 million, an increase of \$1.4 million from October 31, 2005. Management believes that working capital and operating ratios remain at acceptable levels.

**Champion Industries, Inc. and Subsidiaries**

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

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

**Environmental Regulation**

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

**Special Note Regarding Forward-Looking Statements**

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

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

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

**ITEM 4. Controls and Procedures**

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



**PART II - OTHER INFORMATION**

**Item 6. Exhibits**

a)

Exhibits:

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



**SIGNATURES**

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

CHAMPION INDUSTRIES, INC.

Date: March 8, 2006

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

Date: March 8, 2006

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

Date: March 8, 2006

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