

CHAMPION INDUSTRIES INC
Form 10-Q
September 14, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended July 31, 2015

OR

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

For the transition period from _____ to _____
Commission File No. 000-21084

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

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

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

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

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

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

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

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

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

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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 July 31, 2015
Common stock, \$1.00 par value per share	11,299,528 shares

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Champion Industries, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Champion Industries, Inc. and Subsidiaries

Consolidated Balance Sheets

	July 31, 2015 (Unaudited)	October 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 72,543	\$818,438
Accounts receivable, net of allowance of \$521,000 and \$688,000	9,041,791	9,512,731
Inventories	4,166,780	3,969,992
Other current assets	809,026	226,307
Assets held for sale	256,832	256,832
Total current assets	14,346,972	14,784,300
Property and equipment, at cost:		
Land	1,254,195	1,254,195
Buildings and improvements	4,680,112	4,923,113
Machinery and equipment	33,456,351	33,297,081
Equipment under capital lease	72,528	72,528
Furniture and fixtures	3,724,480	3,639,966
Vehicles	2,615,971	2,488,981
	45,803,637	45,675,864
Less accumulated depreciation	(39,568,195)	(38,991,652)
	6,235,442	6,684,212
Goodwill	1,230,485	1,230,485
Deferred financing costs	4,655	69,644
Other intangibles, net of accumulated amortization	1,088,369	1,179,943
Other assets	-	59,809
	2,323,509	2,539,881
Total assets	\$ 22,905,923	\$ 24,008,393
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,139,734	\$ 4,518,634
Accrued payroll and commissions	474,588	583,529
Taxes accrued and withheld	716,711	666,166
Accrued expenses	1,700,942	1,553,978
Debt discount (Note 5)	-	(138,520)
Notes payable (Note 5)	1,747,896	10,947,218
Notes payable - related party (Note 5)	2,500,000	2,500,000
Capital lease obligations (Note 5)	15,617	14,931
Total current liabilities	12,295,488	20,645,936
Long-term debt, net of current portion:		
Notes payable (Note 5)	8,460,788	128,690
Capital lease obligations (Note 5)	16,580	28,381

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Total liabilities	20,772,856	20,803,007
Shareholders' equity:		
Common stock, \$1 par value, 20,000,000 Class A voting shares authorized; 11,299,528 shares issued and outstanding	11,299,528	11,299,528
Additional paid-in capital	24,279,179	24,279,179
Retained deficit	(33,445,640)	(32,373,321)
Total shareholders' equity	2,133,067	3,205,386
Total liabilities and shareholders' equity	\$ 22,905,923	\$ 24,008,393

See notes to consolidated financial statements.

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Champion Industries, Inc. and Subsidiaries
Consolidated Statements of Operations

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Revenues:				
Printing	\$ 8,567,378	\$ 8,649,088	\$ 27,074,972	\$ 27,675,260
Office products and office furniture	5,826,751	6,675,445	18,408,524	18,104,252
Total revenues	14,394,129	15,324,533	45,483,496	45,779,512
Cost of sales:				
Printing	6,619,027	6,541,617	20,426,090	20,919,347
Office products and office furniture	4,322,724	5,044,082	13,678,412	13,453,853
Total cost of sales	10,941,751	11,585,699	34,104,502	34,373,200
Gross profit	3,452,378	3,738,834	11,378,994	11,406,312
Selling, general and administrative expenses	3,840,912	4,047,856	11,633,071	12,253,934
Loss from operations	(388,534)	(309,022)	(254,077)	(847,622)
Other income (expenses):				
Interest expense - related party	(20,763)	(20,764)	(61,615)	(61,615)
Interest expense	(159,329)	(262,076)	(629,381)	(782,441)
Other	7,927	4,400	(35,547)	225,538
	(172,165)	(278,440)	(726,543)	(618,518)
Loss before income taxes	(560,699)	(587,462)	(980,620)	(1,466,140)
Income tax expense	(91,699)	-	(91,699)	-
Net loss	\$ (652,398)	\$ (587,462)	\$ (1,072,319)	\$ (1,466,140)
Loss per share:				
Basic and diluted loss per common share	\$ (0.06)	\$ (0.05)	\$ (0.09)	\$ (0.13)
Weighted average shares outstanding:				
Basic and diluted	11,300,000	11,300,000	11,300,000	11,300,000

See notes to consolidated financial statements.

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Champion Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	Nine Months Ended July 31,	
	2015	2014
Cash flows from operating activities:		
Net loss	\$(1,072,319)	\$ (1,466,140)
Adjustments to reconcile net loss from continuing operations to cash provided by (used in) operating activities:		
Depreciation and amortization	1,221,586	1,501,495
Gain on sale of assets	58,765	(218,535)
Allowance for doubtful accounts	(35,952)	(95,763)
Deferred financing costs / debt discount	182,478	384,885
Changes in assets and liabilities:		
Accounts receivable	506,891	702,249
Inventories	(196,788)	491,923
Other current assets	(582,719)	22,473
Accounts payable	621,101	(2,531,099)
Accrued payroll and commissions	(108,941)	(144,703)
Taxes accrued and withheld	50,545	63,851
Accrued expenses	146,964	(136,322)
Accrued legal settlement	-	120,000
Other liabilities	-	(150)
Net cash provided by (used in) operating activities continuing operations	791,611	(1,305,836)
Net cash provided by operating activities discontinued operations	-	70,047
	791,611	(1,235,789)
Cash flows from investing activities:		
Purchase of property and equipment	(810,165)	(420,859)
Proceeds from sale of fixed assets	70,158	464,229
Other assets	80,840	(15,040)
Net cash (used in) provided by investing activities	(659,167)	28,330
Cash flows from financing activities:		
Proceeds from term debt	2,039,258	879,366
Principal payments on term debt	(2,917,597)	(771,970)
Net cash (used in) provided by financing activities	(878,339)	107,396
Net decrease in cash and cash equivalents	(745,895)	(1,100,063)
Cash and cash equivalents at beginning of period	818,438	1,428,542
Cash and cash equivalents at end of period	\$72,543	\$ 328,479

See notes to consolidated financial statements.

Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

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

The foregoing financial information has been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and rules and regulations of the Securities and Exchange Commission for interim financial reporting. The preparation of the financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. In the opinion of management, the financial information reflects all adjustments (consisting of items of a normal recurring nature) necessary for a fair presentation of financial position, results of operations and cash flows in conformity with GAAP. These interim financial statements should be read in conjunction with the consolidated financial statements for the year ended October 31, 2014, and related notes thereto contained in Champion Industries, Inc.’s Form 10-K filed January 29, 2015. The accompanying interim financial information is unaudited. The balance sheet information as of October 31, 2014 was derived from our audited financial statements. The results of operations for the period are not necessarily indicative of the results to be expected for the full year as our business is subject to seasonal fluctuations. 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.

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

Newly Issued Accounting Standards

Effective July 1, 2009, changes to the ASC are communicated through an ASU. As of July 31, 2015, the FASB has issued ASU’s 2009-01 through 2015-12. The Company reviewed each ASU and determined that they will not have a material impact on the Company’s financial position, results of operations or cash flows, other than related disclosures to the extent applicable.

In January 2015, the FASB issued ASU 2015-01, “Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items” (“ASU 2015-01”). ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. The Company will adopt ASU 2015-01 in December, 2015. This amendment will not have a material impact on the Company’s financial position, results of operation, or cash flows, but will have an impact on related presentation and disclosure to the extent applicable.

In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). ASU 2015-11 provides guidance on simplifying the measurement of inventory. The current standard is to measure inventory at lower of cost or market; where market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 updates this guidance to measure inventory at the lower of cost or net realizable value; where net realizable value is considered to be the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal, and transportation. The Company will adopt ASU 2015-11 in December, 2015. This amendment is not expected to have a material impact on the Company’s financial position, results of operation, or cash flows.

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

Note 2. Earnings per Share

Basic earnings per share is computed by dividing net income by the weighted average shares of common stock outstanding for the period and excludes any dilutive effects of stock options and warrants. Diluted earnings per share is computed by dividing net income by the weighted average shares of common stock outstanding for the period plus the shares that would be outstanding assuming the exercise of dilutive stock options and warrants using the treasury stock method. There was no dilutive effect for the three and nine months ended July 31, 2015 and 2014.

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

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

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

Note 4. Inventories

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

Inventories consisted of the following:

	July 31,	October 31,
	2015	2014

Printing:

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Raw materials	\$ 1,240,711	\$ 1,180,361
Work in process	555,925	539,023
Finished goods	1,011,225	1,131,430
Office products and office furniture	1,358,919	1,119,178
Total inventory	\$ 4,166,780	\$ 3,969,992

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

Note 5. Debt

At the dates indicated, debt consisted of the following:

	July 31, 2015	October 31, 2014
Term Note A dated October 7, 2013, due in monthly installments of \$50,000 plus interest payments equal to the prime rate of interest plus 2% maturing April 1, 2017, collateralized by substantially all of the assets of the Company.	\$ 8,900,000	\$ 9,850,000
Installment notes payable to banks, due in monthly installments plus interest at rates approximating the bank's prime rate or the prime rate subject to various floors maturing in various periods through July 2017, collateralized by equipment and vehicles.	558,684	475,908
Notes payable to shareholders. The shareholder note of \$2.5 million plus all accrued interest was initially due in one balloon payment in September 2014; pursuant to Term Note A, the maturity was adjusted to April 2015. The interest is accrued on this note at a rate of 3.25%. See discussion below for more detail.	2,500,000	2,500,000
Notes payable to a bank, due August 2015, respectively including interest accrued at 5.00% collateralized by specific accounts receivable of the Company	750,000	750,000
Capital lease obligation for printing equipment at an imputed interest rate of 6.02% per annum	32,197	43,312
Unamortized debt discount	-	(138,520)
	12,740,881	13,480,700
Less current portion long-term debt	997,896	12,697,218
Less current portion obligation under capital lease	15,617	14,931
Less short-term debt	750,000	750,000
Less notes payable - related party	2,500,000	
Less debt discount	-	(138,520)
Long-term debt, net of current portion and current capital lease obligation	\$ 8,477,368	\$ 157,071

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

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

achieved.

This conversion is pending a shareholder vote to amend the Company's Articles of Incorporation to allow for the issuance of Preferred Stock. The Company will continue to accrue interest on the related party debt at an annual rate of 3.25% until such conversion has been consummated.

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

Note 6. Income taxes

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The Company considers a multitude of factors in assessing the utilization of its deferred tax assets including the reversal of deferred tax liabilities, projected future taxable income and other assessments, which may have an impact on financial results.

The Company excluded cancellation of debt income (“CODI”) from its income tax liability in 2013 in accordance with applicable Internal Revenue Service guidelines regarding insolvency where the amount of debt cancellation excluded from gross ordinary income is applied to attribute reductions. The insolvency calculation is based on IRS guidelines associated with liabilities in excess of the fair market value of assets immediately prior to the debt cancellation. The attribute reductions are ordered and reduce net operating losses, various credits, capital losses, and asset basis among other attribute reductions if applicable and necessary. As a result of the CODI exception provided in Internal Revenue Code Section 108, the Company reduced its net operating losses, applicable credits and asset basis in accordance with the applicable ordering rules.

In 2014, as a result of the attribute reductions to exclude the Company’s CODI from taxable income in 2013, the Company incurred \$6.4 million of attribute recapture income for tax purposes. As such, the Company used net operating loss carry forwards to offset this attribute recapture income. A decrease in the Company’s deferred tax asset valuation allowance in a like amount of the tax liability arising from the Company’s taxable income was used to offset the income tax liability.

During the third quarter of 2015, the Company finalized its position on its 2014 income tax liability after researching applicable Alternative Minimum Tax (“AMT”) rules and determined it owed \$92,000 in federal income taxes. The \$92,000 tax liability was paid in the third quarter of 2015. AMT taxes paid can be carried forward as a credit against future regular taxable income. The Company had determined that a full valuation allowance against deferred tax assets was warranted at October 31, 2014. The Company reassessed its previous determination regarding its valuation allowance and although the Company has had positive operating trends, it was determined that a full valuation allowance was still warranted at July 31, 2015. Given this, the Company increased its valuation allowance by \$92,000 to neutralize the deferred tax asset associated with its AMT payment made during the third quarter. This increase in the valuation allowance was reflected on the income statement as an income tax expense for the third quarter and nine months ended July 31, 2015. The amount of deferred tax asset considered realizable could be adjusted in future periods and such adjustments may be material to the Consolidated Financial Statements.

Due to the increase in the valuation allowance previously discussed, the Company’s effective tax rate for the three and nine months ended July 31, 2015 was (16.4)% and (9.4)%, respectively. This is compared to 0.0% for the three and nine months ended July 31, 2014. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate and may be impacted by increases or decreases in the valuation allowance for deferred tax assets.

Note 7. Commitments and Contingencies

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

Company and its shareholders to do so.

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

In certain cases, exposure to loss may exist in excess of the accrual to the extent such loss is reasonably possible, but not probable. Management believes an estimate of the aggregate of reasonably possible losses, in excess of amounts accrued, for current legal proceedings not covered by insurance is not greater than \$0.4 million at July 31, 2015 and may be substantially lower than this amount. Any estimate involves significant judgment, given the varying stages of the proceedings (including cases in preliminary stages), as well as numerous unresolved issues that may impact the outcome of a proceeding. Accordingly, Management's estimate will change from time-to-time, and actual losses may be more or less than the current estimate. The current loss estimate excludes legal and professional fees associated with defending such proceedings. These fees are expensed as incurred and may be material to the Company's Consolidated Financial Statements in a particular period.

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

On September 15, 2014 the Company settled a lawsuit for \$0.1 million. The legal proceeding commenced prior to July 31, 2014. As such, the Company recorded this subsequent event in its financial statements at and for the period ended July 31, 2014. This settlement is recorded on the balance sheet under the caption "Accrued legal settlements" and the expense is recorded as part of "Selling, general and administrative" on the Company's Income Statements for the three and nine months ended July 31, 2014.

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 July 31, 2015 the Company had contractual obligations in the form of leases and debt as follows:

Contractual Obligations:	Payments Due by Fiscal Year						Residual	Total
	2015	2016	2017	2018	2019			
Non-cancelable operating leases	\$ 177,994	\$ 427,348	\$ 367,939	\$ 278,632	\$ 174,088	\$ 21,000	\$ 1,447,001	
Term debt	271,810	1,701,596	8,235,278	-	-	-	10,208,684	
Obligations under capital lease	3,817	15,852	12,528	-	-	-	32,197	
Debt discount	-	-	-	-	-	-	-	
Notes payable - related party(1)	2,500,000	-	-	-	-	-	2,500,000	
	\$ 2,953,621	\$ 2,144,796	\$ 8,615,745	\$ 278,632	\$ 174,088	\$ 21,000	\$ 14,187,882	

(1) The Company intends, and the holder of this debt has consented, to convert this debt to preferred stock. See Note 5 to the Consolidated Financial Statements for more information on the Note Payable - Related Party.

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

Note 8. Industry Segment Information

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

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

Our Financial Reporting systems present various data, which is used to operate and measure our operating performance. Our chief operating decision maker utilizes various measures of a segment's profit or loss including historical internal reporting measures and reporting measures based on product lines with operating income or 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. 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 or income reported herein. The Company has certain assets classified as held for sale/discontinued operations representing \$ 256,832 at July 31, 2015 and \$ 311,275 at July 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 July 31, 2015 and July 31, 2014 are \$ 22,905,923 and \$ 23,798,134. The identifiable assets reported below represent \$ 22,649,091 and \$ 23,486,859.

The table below presents information about reported segments for the three and nine months ended July 31, 2015 and 2014:

2015 Quarter 3	Printing	Office Products & Furniture	Total
Revenues	\$ 9,043,753	\$ 6,433,197	\$ 15,476,950
Elimination of intersegment revenue	(476,375)	(606,446)	(1,082,821)
Consolidated revenues	\$ 8,567,378	\$ 5,826,751	\$ 14,394,129
Operating loss	(102,331)	(286,203)	(388,534)
Depreciation & amortization	381,836	22,703	404,539
Capital expenditures	230,390	19,771	250,161
Identifiable assets	15,273,510	7,375,581	22,649,091
Goodwill	-	1,230,485	1,230,485

2014 Quarter 3	Printing	Office Products & Furniture	Total
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Revenues	\$	9,363,551	\$	7,483,730	\$	16,847,281
Elimination of intersegment revenue		(714,463)		(808,285)		(1,522,748)
Consolidated revenues	\$	8,649,088	\$	6,675,445	\$	15,324,533
Operating loss		(203,633)		(105,389)		(309,022)
Depreciation & amortization		440,840		26,359		467,199
Capital expenditures		118,529		2,371		120,900
Identifiable assets		16,040,091		7,446,768		23,486,859
Goodwill		-		1,230,485		1,230,485

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

2015 Year to Date	Printing	Office Products & Furniture	Total
Revenues	\$ 28,634,690	\$ 20,477,892	\$ 49,112,582
Elimination of intersegment revenue	(1,559,718)	(2,069,368)	(3,629,086)
Consolidated revenues	\$ 27,074,972	\$ 18,408,524	\$ 45,483,496
Operating income (loss)	160,441	(414,518)	(254,077)
Depreciation & amortization	1,152,102	69,484	1,221,586
Capital expenditures	720,200	89,965	810,165
Identifiable assets	15,273,510	7,375,581	22,649,091
Goodwill	-	1,230,485	1,230,485

2014 Year to Date	Printing	Office Products & Furniture	Total
Revenues	\$ 29,377,286	\$ 20,487,492	\$ 49,864,778
Elimination of intersegment revenue	(1,702,026)	(2,383,240)	(4,085,266)
Consolidated revenues	\$ 27,675,260	\$ 18,104,252	\$ 45,779,512
Operating loss	(429,058)	(418,564)	(847,622)
Depreciation & amortization	1,422,415	79,080	1,501,495
Capital expenditures	400,748	20,111	420,859
Identifiable assets	16,040,091	7,446,768	23,486,859
Goodwill	-	1,230,485	1,230,485

A reconciliation of total segment revenue, assets and operating (loss) to consolidated (loss) before income taxes, for the three and nine months ended July 31, 2015 and 2014 is as follows:

	Three months		Nine months	
	2015	2014	2015	2014
Revenues:				
Total segment revenues	\$ 15,476,950	\$ 16,847,281	\$ 49,112,582	\$ 49,864,778
Elimination of intersegment revenue	(1,082,821)	(1,522,748)	(3,629,086)	(4,085,266)
Consolidated revenue	\$ 14,394,129	\$ 15,324,533	\$ 45,483,496	\$ 45,779,512
Operating loss:				
Total segment operating loss	\$ (388,534)	\$ (309,022)	\$ (254,077)	\$ (847,622)
Interest expense - related party	(20,763)	(20,764)	(61,615)	(61,615)
Interest expense	(159,329)	(262,076)	(629,381)	(782,441)
Other income	7,927	4,400	(35,547)	225,538
Consolidated loss	\$ (560,699)	\$ (587,462)	\$ (980,620)	\$ (1,466,140)
Identifiable assets:				
Total segment identifiable assets	\$ 22,649,091	\$ 23,486,859	\$ 22,649,091	\$ 23,486,859

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Assets not allocated to a segment	256,832	311,275	256,832	311,275
Total consolidated assets	\$ 22,905,923	\$ 23,798,134	\$ 22,905,923	\$ 23,798,134

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Champion Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited) (continued)

Note 9. Fair Value Measurements

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

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

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

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

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

The term debt not discussed herein had a carrying value of approximately \$1.3 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)

Note 10. Acquired Intangible Assets and Goodwill

	July 31, 2015		October 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets:				
Non-compete agreement	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000	\$ 1,000,000
Customer relationships	2,451,073	1,362,704	2,451,073	1,271,130
Other	564,946	564,946	564,946	564,946
	4,016,019	2,927,650	4,016,019	2,836,076
Unamortizable intangible assets:				

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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	\$ 3,434,928	\$ 5,753,782	\$ 3,343,354

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

Amortization expense for the three and nine months ended July 31, 2015 was \$31,000 and \$92,000, respectively, and for the three and nine months ended July 31, 2014 was \$31,000 and \$98,000, respectively. Customer relationships are being amortized over a period of 20 years, related to the acquisition of Syscan in 2004. The weighted average remaining life of the Company's amortizable intangible assets was approximately 5 years.

Estimated amortization expense for each of the following years is:

2015	\$ 30,524
2016	122,098
2017	122,098
2018	122,098
2019	122,098
Thereafter	569,453
	\$ 1,088,369

The changes in the carrying amount of goodwill and other amortizing intangibles for the nine months ended July 31, 2015 were:

Goodwill:

	Printing	Office Products and Furniture	Total
Balance at October 31, 2014:			
Goodwill	\$ 2,226,837	\$ 1,230,485	\$ 3,457,322
Accumulated impairment losses	(2,226,837)	-	(2,226,837)
	-	1,230,485	1,230,485
Goodwill acquired nine months ended July 31, 2015			
	-	-	-
Impairment losses nine months ended July 31, 2015			
	-	-	-
Balance at July 31, 2015:			
Goodwill	2,226,837	1,230,485	3,457,322
Accumulated impairment losses	(2,226,837)	-	(2,226,837)
	\$ -	\$ 1,230,485	\$ 1,230,485

Amortizing Intangible Assets (net of amortization expense):

	Printing	Office Products and Furniture	Total
Balance at October 31, 2014:			
Amortizing intangible assets	\$ 395,206	\$ 784,737	\$ 1,179,943
Accumulated impairment losses	-	-	-

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	395,206	784,737	1,179,943
Amortizing intangible assets acquired nine months ended July 31, 2015	-	-	-
Impairment losses nine months ended July 31, 2015	-	-	-
Amortization expense	30,677	60,897	91,574
Balance at July 31, 2015:			
Amortizing intangible assets	364,529	723,840	1,088,369
Accumulated impairment losses	-	-	-
	\$ 364,529	\$ 723,840	\$ 1,088,369

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

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

Results of Operations

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

	Percentage of Total Revenues			
	Three Months Ended July 31,		Nine Months Ended July 31,	
	2015	2014	2015	2014
Revenues:				
Printing	59.5%	56.4%	59.5%	60.5%
Office products and office furniture	40.5	43.6	40.5	39.5
Total revenues	100.0	100.0	100.0	100.0
Cost of sales:				
Printing	46.0	42.7	44.9	45.7
Office products and office furniture	30.0	32.9	30.1	29.4
Total cost of sales	76.0	75.6	75.0	75.1
Gross profit	24.0	24.4	25.0	24.9
Selling, general and administrative expenses	26.7	26.4	25.6	26.8
Loss from operations	(2.7)	(2.0)	(0.6)	(1.9)
Interest expense - related party	(0.1)	(0.1)	(0.1)	(0.1)
Interest expense	(1.1)	(1.7)	(1.4)	(1.7)
Other income	-	-	(0.1)	0.5
Loss before taxes	(3.9)	(3.8)	(2.2)	(3.2)
Income tax expense	(0.6)	-	(0.2)	-
Net loss	(4.5)%	(3.8)%	(2.4)%	(3.2)%

Champion Industries, Inc. and Subsidiaries

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

Three Months Ended July 31, 2015 Compared to Three Months Ended July 31, 2014

Revenues

Total revenues decreased \$0.9 million, or 6.1%, in the third quarter of 2015 compared to the same period in 2014 to \$14.4 million from \$15.3 million.

Printing revenue decreased \$82,000, or 0.9%, in the third quarter of 2015 to \$8.6 when compared to the third quarter of 2014. The slight decrease in printing revenue in the third quarter was due to several factors including a decrease in demand from oil and gas related customers at the Company's Champion Graphics division in Baton Rouge, LA as well as a decrease in demand from the Company's customers in southern WV in the coal industry. The Company does not have a direct concentration in these industries and its Management believes it will be able to mitigate any such decreases with new printing business going forward.

Office products and office furniture revenue decreased \$0.8 million, or 12.7%, in the third quarter of 2015 to \$5.8 million from \$6.7 million in the third quarter of 2014. The office products and office furniture sales decrease in the third quarter of 2015, when compared to the third quarter of 2014, is due to the timing of its office furniture sales. The Company sales office furniture and interior design services on a commercial scale at its Capitol Business division and the jobs are large in dollar volume but few transactions. Through nine months the Company's office products and furniture sales are up \$0.3 million and this is due to office furniture sales.

Cost of Sales

Total cost of sales decreased \$0.6 million, or 5.6%, in the third quarter of 2015 to \$10.9 million from \$11.6 million in the third quarter of 2014. As a percentage of sales cost of sales were 76.0% in the third quarter of 2015 compared to 75.6% in the same period in 2014.

Printing cost of sales in the third quarter of 2015 increased \$77,000, or 1.2%, and increased as a percentage of printing sales from 75.6% in 2014 to 77.3% in 2015.

Office products and office furniture cost of sales decreased in the third quarter of 2015 from the same period in 2014 due to lower sales. As a percentage of office products and office furniture sales, cost of sales decreased from 75.6% in 2014 to 74.2% in 2015.

The Company's Management believes that the Company's margins are stable and any quarterly variances are within an acceptable range.

Operating Expenses

In the third quarter of 2015, selling, general and administrative ("SG&A") expenses decreased \$0.2 million or 5.1% to \$3.8 million from \$4.0 million during the same period in 2014. As a percentage of total sales, SG&A expenses increased on a quarter to quarter basis in 2015 to 26.7% from 26.4% in 2014. The decrease in SG&A in total in the fiscal third quarter of 2015 compared to the same period in 2014 was primarily reflective of lower insurance costs associated with our health insurance plan as well as decreases in depreciation, and payroll expenses. These decreases

were partially offset by increases in repair and maintenance expenses. Management intends to continue to maximize efficiency in operations and monitor expenses to properly align with sales levels and industry benchmarks. In the short term, this could elevate the Company's repairs and maintenance costs.

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

Segment Operating Loss

The printing segment reported an operating loss in the third quarter of 2015 of \$0.1 million compared to an operating loss of \$0.2 million in the third quarter of 2014. The decrease in operating loss was primarily attributable to lower SG&A expenses that were partially offset by a decrease in gross profit.

The office products and office furniture segment reported an operating loss of \$0.3 million in the third quarter of 2015 compared to an operating loss of \$0.1 million in the third quarter of 2014. The increase in the operating loss for this segment is the result of the decreased sales volume due to reasons discussed in the revenues section.

Loss from Operations

The loss from operations in the third quarter of 2015 was \$0.4 million compared to a loss from operations of \$0.3 million in the third quarter of 2014. This increase in operating losses was primarily the result of decreased sales volume in the office products and office furniture segment for the third quarter 2015 when compared to 2014. We believe the year to date results are more indicative of full year expectations and operating trends for this segment.

Other Income (Expense)

On a net basis, other income (expenses) decreased \$0.1 million in the third quarter of 2015 when compared to the same period in 2014. This is principally due to the \$0.5 million premium associated with the Company's October 2013 Credit Agreement being fully amortized over the 18 month period ending in March of 2015. Secondly, the Company's interest expense decreased as a result of lower principal balances of its debt.

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 excluded cancellation of debt income ("CODI") from its income tax liability in 2013 in accordance with applicable Internal Revenue Service guidelines regarding insolvency where the amount of debt cancellation excluded from gross ordinary income is applied to attribute reductions. The insolvency calculation is based on IRS guidelines associated with liabilities in excess of the fair market value of assets immediately prior to the debt cancellation. The attribute reductions are ordered and reduce net operating losses, various credits, capital losses, and asset basis among other attribute reductions if applicable and necessary. As a result of the CODI exception provided in Internal Revenue Code Section 108, the Company reduced its net operating losses, applicable credits and asset basis in accordance with the applicable ordering rules.

In 2014, as a result of the attribute reductions to exclude the Company's CODI from taxable income in 2013, the Company incurred \$6.4 million of attribute recapture income for tax purposes. As such, the Company used net operating loss carry forwards to offset this attribute recapture income. A decrease in the Company's deferred tax asset valuation allowance in a like amount of the tax liability arising from the Company's taxable income was used to offset the income tax liability.

During the third quarter of 2015, the Company finalized its position on its 2014 income tax liability after researching applicable Alternative Minimum Tax (“AMT”) rules and determined it owed \$92,000 in federal income taxes. The \$92,000 tax liability was paid in the third quarter of 2015. AMT taxes paid can be carried forward as a credit against future regular taxable income. The Company had determined that a full valuation allowance against deferred tax assets was warranted at October 31, 2014. The Company reassessed its previous determination regarding its valuation allowance and although the Company has had positive operating trends, it was determined that a full valuation allowance was still warranted at July 31, 2015. Given this, the Company increased its valuation allowance by \$92,000 to neutralize the deferred tax asset associated with its AMT payment made during the third quarter. This increase in the valuation allowance was reflected on the income statement as an income tax expense for the third quarter and nine months ended July 31, 2015. The amount of deferred tax asset considered realizable could be adjusted in future periods and such adjustments may be material to the Consolidated Financial Statements.

Due to the increase in the valuation allowance previously discussed, the Company’s effective tax rate for the three and nine months ended July 31, 2015 was (16.4)% and (9.4)%, respectively. This is compared to 0.0% for the three and nine months ended July 31, 2014. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate and may be impacted by increases or decreases in the valuation allowance for deferred tax assets.

Net Loss

The net loss for the third quarter of 2015 was \$0.7 million compared to a net loss of \$0.6 million in the third quarter of 2014. Basic and diluted loss per share for the three months ended July 31, 2015 and 2014 were a loss of \$0.06 and \$0.05, respectively.

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

Nine Months Ended July 31, 2015 Compared to Nine Months Ended July 31, 2014

Revenues

Total revenues decreased slightly, 0.6%, in the first nine months of 2015 compared to the same period in 2014 to \$45.5 million from \$45.8 million.

Printing revenue decreased \$0.6 million, or 2.2%, in the nine month period ended July 31, 2015 to \$27.1 million from \$27.7 million in the same period in 2014. The printing revenue decrease for the first nine months of 2015 compared to the same period in 2014 was primarily reflective of customer specific sales decreases and turnover as well as decreased demand from customers in the oil and gas, and coal industries; as previously discussed. The Company saw decreases in its printing segment of \$82,000 in its most recent quarter when compared to the same period of 2014; therefore, we believe the Company has stabilized printing sales and project increases on a one year comparative basis for the near term.

Office products and office furniture revenue increased \$0.3 million or 1.7% in the nine month period ended July 31, 2015 to \$18.4 million from \$18.1 million in the same period in 2014. The office products and office furniture sales increase was due to a higher volume of office furniture sales during the first nine months of fiscal 2015.

Cost of Sales

Total cost of sales decreased \$0.3 million, or 0.8%, in the nine months ended July 31, 2015, to \$34.1 million from \$34.4 million in the nine months ended July 31, 2014. As a percentage of total sales, cost of sales decreased slightly to 75.0% for the first nine months of fiscal 2015 compared to 75.1% for the same period in 2014.

Printing cost of sales decreased 2.4% in the nine months ended July, 2015, to \$20.4 million from \$20.9 million in the nine months ended July 31, 2014. The decrease in printing cost of sales was primarily due to the decrease in printing sales. As a percentage of printing sales, cost of sales decreased to 75.4% for the first nine months of 2015 compared to 75.6% for the same period in 2014.

Office products and office furniture cost of sales increased 1.7% in the nine months ended July 31, 2015, to \$13.7 million from \$13.5 million for the nine months ended July 31, 2014. This was the result of higher sales volume. Through nine months of fiscal 2015 compared to fiscal 2014, the office products and office furniture cost of sales as a percentage of office product and office furniture sales was flat at 74.3%.

Operating Expenses

For the nine months ended July 31, 2015, compared to the same period in 2014, SG&A expenses decreased from 26.8% in 2014 to 25.6% in 2015 as a percentage of total sales. Total SG&A expenses decreased \$0.6 million. The decrease in SG&A in total dollars and as a percentage of sales was primarily reflective of a decrease in payroll, professional, insurance, depreciation and amortization, advertising, and information technology expenses. These decreases were partially offset by higher repair and maintenance expenses.

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

Segment Operating Income (Loss)

The printing segment reported an operating income for the first nine months of fiscal 2015 of \$0.2 million compared to an operating loss of \$0.4 million in the first nine months of fiscal 2014. This increase in operating income for the printing segment was principally the result of lower SG&A expenses.

The office products and office furniture segment reported an operating loss of \$0.4 million in the first nine months of fiscal 2015 and 2014. Although sales were higher for this segment, margins were flat and SG&A expenses offset the increased margin contribution from higher sales.

Loss from Operations

The loss from operations in the nine month period ended July 31, 2015, was \$0.3 million compared to a loss from operations of \$0.8 million in the same period of 2014. The decrease in operating losses for 2015 was primarily the result of lower SG&A expenses for the printing segment.

Other Income (Expenses)

Other income (expenses) was a net expense of \$0.7 million in the nine month period ended July 31, 2015 and \$0.6 million for the same period in 2014. Other income (expenses) is comprised of interest expense, miscellaneous income, and gains and losses on the sales or disposal of assets. The net expense increase of \$0.1 million through nine months of fiscal 2015 was due to a gain of a sale of a building of \$0.2 million during 2014 and in 2015 the Company recognized a write-down of \$0.1 million for leasehold improvements due to the move to a new facility of one of its office products and office furniture divisions. The increase in other expenses was partially offset by decreased interest expense on lower principal balances of the Company's debt.

Income Taxes

The 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 excluded cancellation of debt income ("CODI") from its income tax liability in 2013 in accordance with applicable Internal Revenue Service guidelines regarding insolvency where the amount of debt cancellation excluded from gross ordinary income is applied to attribute reductions. The insolvency calculation is based on IRS guidelines associated with liabilities in excess of the fair market value of assets immediately prior to the debt cancellation. The attribute reductions are ordered and reduce net operating losses, various credits, capital losses, and asset basis among other attribute reductions if applicable and necessary. As a result of the CODI exception provided in Internal Revenue Code Section 108, the Company reduced its net operating losses, applicable credits and asset basis in accordance with the applicable ordering rules.

In 2014, as a result of the attribute reductions to exclude the Company's CODI from taxable income in 2013, the Company incurred \$6.4 million of attribute recapture income for tax purposes. As such, the Company used net operating loss carry forwards to offset this attribute recapture income. A decrease in the Company's deferred tax asset

valuation allowance in a like amount of the tax liability arising from the Company's taxable income was used to offset the income tax liability.

During the third quarter of 2015, the Company finalized its position on its 2014 income tax liability after researching applicable Alternative Minimum Tax ("AMT") rules and determined it owed \$92,000 in federal income taxes. The \$92,000 tax liability was paid in the third quarter of 2015. AMT taxes paid can be carried forward as a credit against future regular taxable income. The Company had determined that a full valuation allowance against deferred tax assets was warranted at October 31, 2014. The Company reassessed its previous determination regarding its valuation allowance and although the Company has had positive operating trends, it was determined that a full valuation allowance was still warranted at July 31, 2015. Given this, the Company increased its valuation allowance by \$92,000 to neutralize the deferred tax asset associated with its AMT payment made during the third quarter. This increase in the valuation allowance was reflected on the income statement as an income tax expense for the third quarter and nine months ended July 31, 2015. The amount of deferred tax asset considered realizable could be adjusted in future periods and such adjustments may be material to the Consolidated Financial Statements.

Due to the increase in the valuation allowance previously discussed, the Company's effective tax rate for the three and nine months ended July 31, 2015 was (16.4)% and (9.4)%, respectively. This is compared to 0.0% for the three and nine months ended July 31, 2014. The effective income tax rate approximates the combined federal and state, net of federal benefit, statutory income tax rate and may be impacted by increases or decreases in the valuation allowance for deferred tax assets.

Net Loss

The net loss for the nine months ended July 31, 2015 was \$1.1 million compared to a net loss of \$1.5 million for the same period in 2014.

Basic and diluted loss per share for the nine months ended July 31, 2015 was \$0.09 compared to a loss per share of \$0.13 for the same period in 2014.

Champion Industries, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition
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Inflation and Economic Conditions

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

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

Seasonality

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

Liquidity and Capital Resources

Statement of Cash Flows

Net cash provided by operations for the nine months ended July 31, 2015 was \$0.8 million compared to net cash used in operations of \$1.2 million during the same period in 2014. This change is due primarily to the decrease in the net loss as well as the timing of changes in assets and liabilities; specifically accounts payable, accounts receivable, and inventory.

Net cash used in investing activities for the nine months ended July 31, 2015 was \$0.7 million compared to net cash provided by investing activities of \$28,000 during the same period in 2014. The net cash provided by investing activities during the first nine months of 2014 was primarily related to proceeds of \$0.5 million from the sale of fixed assets. This was mainly comprised of the sale of a building. In 2015 the Company invested more in property and equipment comparative to 2014.

Net cash used in financing activities for the nine months ended July 31, 2015 was \$0.9 million compared to cash provided by financing activities of \$0.1 million during the same period in 2014. In 2015, the net cash used in financing activities was due to scheduled principal payments as well as a \$0.5 million reduction in debt in April of 2015 from the payment of the premium associated with the Company's October 2013 Credit Agreement. The decreases in debt were partially offset by extensions of credit used to finance large furniture jobs as well as vehicles; the former are short-term in nature and typically are paid within 120 days as the specific receivables are collected. In 2014, the net cash provided by financing activities was primarily related to extensions of credit associated with the purchase of vehicles and equipment as well as financing of a large furniture job.

Liquidity and Capital Resources

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

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

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

As of July 31, 2015, the Company had a \$73,000 book cash balance, compared with October 31, 2014 when the Company had a \$0.8 million book cash balance. The Company's working capital deficit as of October 31, 2014 was \$(5.9) million, and working capital at July 31, 2015 was \$2.1 million. This increase in working capital is reflective of the Company's debt refinanced to mature in April 2017. In addition, the Company currently has notes payable to a related party (the Company's Chairman and CEO) of \$2.5 million that matured April 1, 2015 that is classified as current debt that it intends to convert to preferred stock equity. This action is pending shareholder a shareholder vote to approve an amendment to the Company's Articles of Incorporation to allow for the issuance of preferred stock.

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

Champion Industries, Inc. and Subsidiaries
Management's Discussion and Analysis of Financial Condition
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Environmental Regulation

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

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

Special Note Regarding Forward-Looking Statements

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

ITEM 3. Quantitative and Qualitative Disclosure About Market Risk

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

ITEM 4. Controls and Procedures

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

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There were no material changes in risk factors from disclosures previously reported in our annual report on Form 10-K for the fiscal year ended October 31, 2014.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

a) Exhibits:

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

Signatures

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

CHAMPION INDUSTRIES, INC.

Date: September 14, 2015

/s/ Marshall T. Reynolds
Marshall T. Reynolds
Chief Executive Officer (Principal
Executive Officer)

Date: September 14, 2015

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

