

CHAMPION INDUSTRIES INC
Form 10-K
January 29, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the Fiscal Year Ended October 31, 2009

OR

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

Commission File No. 0-21084

CHAMPION INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

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

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

2450 First Avenue
P.O. Box 2968
Huntington, West Virginia
(Address of Principal Executive
Offices)

25728
(Zip Code)

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-K

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes No

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 (1) has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

As of April 30, 2009, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$8,065,518 based on the closing price as reported on the National Association of Securities Dealers Automated Quotation System Global Market.

The outstanding common stock of the Registrant at the close of business on January 4, 2010 consisted of 9,987,913 shares of Common Stock, \$1.00 par value.

Total number of pages including cover page: 111.

DOCUMENTS INCORPORATED BY REFERENCE: Portions of the Registrant's definitive proxy statement expected to be dated February 12, 2010 with respect to its Annual Meeting of Shareholders to be held on March 15, 2010 are incorporated by reference into Part III, Items 10-14. Exhibit Index located in Part IV Item 15.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report or in documents incorporated herein by reference, 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 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, changes in business strategy or development plans and other factors referenced in this Annual Report, including without limitations under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." Given these uncertainties, prospective investors are cautioned not to place undue reliance on such forward-looking statements. 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.

PART I

ITEM 1 - BUSINESS

HISTORY

Champion Industries, Inc. ("Champion" or the "Company") is a major commercial printer, business forms manufacturer and office products and office furniture supplier in regional markets east of the Mississippi River. The Company also publishes The Herald-Dispatch daily newspaper in Huntington, WV with a total daily and Sunday circulation of approximately 24,000 and 30,000 respectively. The Company's sales offices and/or production facilities are located in Huntington, Charleston, Parkersburg, Clarksburg, Wheeling and Morgantown, West Virginia; Lexington Kentucky; Baton Rouge and New Orleans, Louisiana; Cincinnati, Ohio; Kingsport, Tennessee; Evansville, Indiana; Bridgeville and Altoona, Pennsylvania; and Asheville, North Carolina. The Company's sales force of approximately 130 salespeople sells printing services, business forms management services, office products, office furniture and newspaper advertising.

The Company was chartered as a West Virginia corporation on July 1, 1992. Prior to the public offering of the Company's Common Stock on January 28, 1993 (the "Offering"), the Company's business was operated by The Harrah and Reynolds Corporation ("Harrah and Reynolds"), doing business as Chapman Printing Company, together with its wholly-owned subsidiaries, The Chapman Printing Company, Inc. and Stationers, Inc. Incident to the Offering, Harrah and Reynolds and the Company entered into an Exchange Agreement, pursuant to which, upon the closing date of the Offering: (i) Harrah and Reynolds contributed to the Company substantially all of the operating assets of its printing division, including all inventory and equipment (but excluding any real estate and vehicles) and all issued and outstanding capital stock of its subsidiaries, The Chapman Printing Company, Inc. and Stationers, Inc.; (ii) the Company assumed certain of the liabilities relating to the operations of the printing divisions of Harrah and Reynolds and its subsidiaries, The Chapman Printing Company, Inc. and Stationers, Inc., excluding debts associated with real estate, certain accounts payable to affiliates and certain other liabilities; and (iii) Harrah and Reynolds was issued 2,000,000 shares of Common Stock of the Company.

The Company and its predecessors have been headquartered in Huntington since 1922. Full scale printing facilities, including web presses for manufacturing business forms, and sales and customer service operations are located in Huntington. The Company's Charleston division was established in 1974 through the acquisition of the printing operations of Rose City Press. Sales and customer service operations, as well as the pre-press departments, are located in Charleston. The Parkersburg division opened in 1977 and was expanded by the acquisitions of Park Press and McGlothlin Printing Company. In addition to sales and customer service operations, this division houses a large full-color printing facility and a state-of-the-art studio, with scanners, electronic color retouching equipment and 4-, 5- and 6-color presses.

The Lexington division commenced operations in 1983 upon the acquisition of the Transylvania Company. This location includes a pre-press department, computerized composition facilities, as well as sales and customer service operations.

The Company acquired Stationers, Inc. ("Stationers"), an office product, office furniture and retail bookstore operation located in Huntington, in 1987 and consolidated its own office products and office furniture operations with Stationers. On August 30, 1991, Stationers, Inc. sold the assets, primarily inventory and fixtures, of its retail bookstore operation. In July 1993, Stationers expanded through acquisition and began operations in Marietta, Ohio, under the name "Garrison Brewer." The Company's Garrison Brewer operation was relocated across the Ohio river to the nearby Chapman Printing Parkersburg location in 2002.

The Bourque Printing division ("Bourque" or "Champion Graphic Communications - Baton Rouge") commenced operations in June 1993, upon the acquisition of Bourque Printing, Inc. in Baton Rouge, Louisiana. This location includes a pre-press department, computerized composition facilities, a pressroom with up to 6-color presses and a bindery department, as well as sales and customer service operations. Bourque was expanded through the acquisition of Strother Forms/Printing in Baton Rouge in 1993, through the acquisition of the assets of E. S. Upton Printing Company, Inc. ("Upton" or "Champion Graphic Communications - New Orleans") in New Orleans in 1996 and through the acquisition of Transdata Systems, Inc. in Baton Rouge and New Orleans in 2001. The Upton production operations were relocated to Baton Rouge in the fourth quarter of 2005 as a result of Hurricane Katrina. However, the sales and customer service staff continue to operate in New Orleans.

The Dallas Printing division (“Dallas” or “Champion Jackson”) commenced operations in September 1993, upon the acquisition of Dallas Printing Company, Inc. in Jackson, Mississippi. This location includes a pre-press department, computerized composition facilities, as well as sales and customer service operations. The operations of Dallas were moved to Baton Rouge, Louisiana in August 2005 and consolidated into an existing facility.

On November 2, 1993, a wholly-owned subsidiary of the Company chartered to effect such acquisition purchased selected assets of Tri-Star Printing, Inc., a Delaware corporation doing business as “Carolina Cut Sheets” in the manufacture and sale of business forms in Timmonsville, South Carolina. The Company's subsidiary has changed its name to “Carolina Cut Sheets, Inc.” Carolina Cut Sheets manufactures single-part business forms for sale to dealers and through the Company's other divisions. Carolina Cut Sheets was relocated to Huntington, West Virginia in 2001.

On February 25, 1994, Bourque acquired certain assets of Spectrum Press Inc. (“Spectrum”), a commercial printer located in Baton Rouge, Louisiana.

On June 1, 1994, the Company acquired certain assets of Premier Data Graphics, a distributor of business forms and data supplies located in Clarksburg, West Virginia.

On August 30, 1994, Dallas acquired certain assets of Premier Printing Company, Inc. (“Premier Printing”) of Jackson, Mississippi. This operation was moved to Baton Rouge, Louisiana with the Dallas relocation.

On June 1, 1995, in exchange for issuance of 52,383 shares of its common stock, the Company acquired U.S. Tag & Ticket Company, Inc. (“U.S. Tag”), a Baltimore, Maryland based manufacturer of tags used in the manufacturing, shipping, postal, airline and cruise industries. The operations of U.S. Tag were moved to Huntington, West Virginia in August 2003 and they were consolidated into an existing facility.

On November 13, 1995, the Company acquired Donihe Graphics, Inc. (“Donihe”), a high-volume color printer based in Kingsport, Tennessee.

On July 1, 1996, the Company acquired Smith & Butterfield Co., Inc. (“Smith & Butterfield”), an office products company located in Evansville, Indiana and Owensboro, Kentucky. Smith & Butterfield is operated as a division of Stationers, Inc.

On August 21, 1996, the Company purchased the assets of The Merten Company (“Merten”), a commercial printer headquartered in Cincinnati, Ohio.

On December 31, 1996, the Company acquired all outstanding capital stock of Interform Corporation (“Interform”), a business form manufacturer in Bridgeville, Pennsylvania.

On May 21, 1997, the Company acquired all outstanding common shares of Blue Ridge Printing Co., Inc. of Asheville, North Carolina (“Blue Ridge”). During the second quarter of 2004, the Blue Ridge Knoxville plant was consolidated into the Asheville plant.

On February 2, 1998, the Company acquired all outstanding common shares of Rose City Press (“Rose City”) of Charleston, West Virginia.

On May 18, 1998, the Company acquired all outstanding common shares of Capitol Business Equipment, Inc. (“Capitol”), doing business as Capitol Business Interiors, of Charleston, West Virginia.

On May 29, 1998, the Company acquired all outstanding common shares of Thompson’s of Morgantown, Inc. and Thompson’s of Barbour County, Inc. (collectively, “Thompson’s” or “Champion Morgantown”) of Morgantown, West Virginia.

Rose City, Capitol and Thompson’s are operated as divisions of Stationers.

On June 1, 1999, the Company acquired all of the issued and outstanding common stock of Independent Printing Service, Inc. (“IPS”) of Evansville, Indiana. IPS is operated as a division of Smith & Butterfield.

On July 16, 1999, the Company’s Blue Ridge subsidiary acquired certain assets and assumed certain liabilities of AIM Printing (“AIM”) of Knoxville, Tennessee.

On November 30, 1999, the Company acquired all of the issued and outstanding common stock of Diez Business Machines (“Diez”) of Gonzales, Louisiana. Diez was operated as a subsidiary of Stationers until 2004 when it was relocated to the Bourque facility in Baton Rouge, Louisiana.

On November 6, 2000, the Company acquired certain assets of the Huntington, West Virginia paper distribution division of the Cincinnati Cordage Paper Company (“Cordage”). On April 30, 2001, the Company entered into a strategic alliance with Xpedx resulting in the assumption by Xpedx of the Cordage customer list and the sale of certain inventory items.

On October 10, 2001, the Company acquired Transdata Systems, Inc. (“Transdata”) of Baton Rouge and New Orleans, Louisiana. In 2004, Transdata was relocated to existing facilities in New Orleans and Baton Rouge. In 2005, Transdata New Orleans operations were relocated to Baton Rouge.

On June 18, 2003, the Company acquired certain assets of Contract Business Interiors (“CBI”) of Wheeling, West Virginia pursuant to acceptance by the U.S. Bankruptcy Court for the Northern District of West Virginia. As a result of this transaction, the Company also assumed certain customer deposit liabilities in the ordinary course of business.

On July 1, 2003, the Company acquired certain assets of Pittsburgh based Integrated Marketing Solutions, the direct sales division and distributorship of Datatel Resources Corporation.

On May 13, 2004, the Company acquired certain assets of Cincinnati, Ohio Westerman Print Company (“Westerman”). The assets of Westerman were moved to the Company’s Merten operation in Cincinnati, Ohio.

On September 7, 2004, the Company acquired all the issued and outstanding capital stock of Syscan Corporation (“Syscan”), a West Virginia corporation, for a gross 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. At closing, after considering the cash received in the transaction, the acquisition of a building and acquisition costs, the net assets acquired totaled approximately \$2,688,000. On December 14, 2006, the Company satisfied the contingent purchase price for a payment of \$1,350,725.

On September 14, 2007, the Company completed, pursuant to an asset purchase agreement, the acquisition of The Herald-Dispatch daily newspaper in Huntington, West Virginia through a newly formed subsidiary Champion Publishing, Inc. The purchase price was \$77.0 million and subject to a working capital payment of \$837,554 plus or minus any change in working capital from the index working capital base of \$1,675,107 at the closing date of September 14, 2007. The working capital payment totaled approximately \$1.6 million.

All acquisitions have been accounted for using the purchase method of accounting except for U.S. Tag, Blue Ridge, Capitol and Thompson’s, which utilized the “pooling-of-interest” method of accounting.

BUSINESS

Champion is engaged in the commercial printing and office products and furniture supply business in regional markets east of the Mississippi River. The Company also publishes The Herald-Dispatch daily newspaper in Huntington, WV with a total daily and Sunday circulation of approximately 24,000 and 30,000. The Company's sales force markets a full range of printing services, business forms, office products and office furniture. Management views these sales activities as complementary since frequent customer sales calls required for one of its products or services provide opportunities to cross-sell other products and services. The Company believes it benefits from significant customer loyalty and customer referrals because it provides personal service, quality products, convenience and selection with one-stop shopping.

The Company's printing services range from the simplest to the most complex jobs, including business cards, books, tags, labels, brochures, posters, 4- to 6-color process printing and multi-part, continuous and snap-out business forms. The Company's state-of-the-art equipment enables it to provide computerized composition, art design, paste-up, stripping, film assembly and color scanner separations. Included within our print segment are fulfillment services to our customers which encompass warehousing, distribution, and reporting services. The Company also offers complete bindery and letterpress services. The printing operations contributed \$89.0 million, \$105.3 million, and \$104.5 million or 63.0%, 63.5% and 70.4% of the Company's total revenues for the fiscal years ended October 31, 2009, 2008 and 2007.

The Company provides a full range of office products and office furniture primarily in the budget and middle price ranges, and also offers office design services. The Company publishes a catalog of high volume, frequently ordered items purchased directly from manufacturers. These catalog sales account for the bulk of sales volume and afford sales personnel flexibility in product selection and pricing. Medium to large volume customers are offered levels of pricing discounts. In addition, the Company offers a broad line of general office products through major wholesalers' national catalogs. The Company has implemented Internet e-commerce sites, which allow customers to order office products, furniture and forms online. The e-commerce sites include the office products and office furniture catalog, which is customized specifically for each customer requesting Internet e-commerce access. These sites include www.stationers-wv.com and www.cbiwv.com. In addition, the Company offers customized on-line forms management solutions through various sites including <http://printwithchampion.com> and www.cgc1.com. The Company believes that its e-commerce sites will allow customers to access data concerning their company’s purchase habits so as to better control expenditures for office products and business forms and eliminate large in-house inventories. The Company is a member of a major office products purchasing organization. Members benefit from volume discounts, which permit them to offer competitive prices and improve margins. The Company's office furniture business focuses on the budget to middle price range lines, although upscale lines are offered as well. Office products, office furniture and office design operations contributed \$35.9 million, \$41.5 million, and \$41.4 million, or

25.4%, 25.1% and 27.9% of the Company's total revenues for the fiscal years ended October 31, 2009, 2008 and 2007.
7

The Company operates a daily newspaper in Huntington, WV. The Company entered the newspaper business by purchasing the assets of The Herald-Dispatch from Gatehouse Media, Inc. The Herald-Dispatch was previously owned by Gannett, Inc. since 1971 and was sold to Gatehouse Media, Inc. in May of 2007.

The Herald-Dispatch serves a regional market area in southwestern West Virginia covering Cabell County and portions of neighboring Wayne County and eastern Lawrence County, Ohio. The Herald-Dispatch is the primary print advertising medium for the region, which centers on Huntington and draws business from across the border into Ohio and Kentucky. The Herald-Dispatch has circulation of 24,000 Monday through Saturday mornings and 30,000 on Sunday, according to the latest Audit Bureau of Circulations (ABC) Newspaper Publisher's Statement for the 6 months ended September 30, 2009. The Herald-Dispatch faces a very limited amount of print competition from other daily newspapers in its home county. It is estimated, based on research performed by Scarborough Management, that the designated market area readership (DMA) is approximately 101,000 on Sunday and 86,000 for weekdays. The website has attracted approximately 416,000 unique visitors per month and approximately 5.16 million page views per month based on the latest Newspaper Publisher's Statement. The historical on-line revenues for The Herald-Dispatch have decreased from approximately \$1.6 million in fiscal year 2008 to approximately \$1.1 million in fiscal year 2009. The six weeks of 2007 from the acquisition on September 14, 2007 to the Company's fiscal calendar year ending on October 31, 2007 represented approximately \$200,000 of online revenues. The Herald-Dispatch contributed \$16.4 million, \$18.9 million, and \$2.5 million, or 11.6%, 11.4% and 1.7% of the Company's total revenues for the fiscal years ended October 31, 2009, 2008 and 2007.

The operations also publish the Putnam Herald serving Putnam County, West Virginia, one of the fastest-growing counties in the state, and the Lawrence Herald in Lawrence County, Ohio. The Putnam Herald and Lawrence Herald are distributed free via mail on Saturday and Thursday, respectively.

The Huntington area has been heavily affected by the de-industrialization experienced in the Upper Midwest since the 1970s. Huntington has sought to recast itself as a university town home to 14,000 students. Downtown Huntington was recently revitalized with a \$60 million retail/mixed use project; and new industries such as call centers are opening and expanding their locations. The area is also a regional shopping hub and growing medical and research center.

Marshall University borders the downtown area of Huntington. Marshall is over 170 years old and is the second largest university in West Virginia. The university currently enrolls 9,500 undergraduate and 4,500 graduate students and offers a full range of programs. Marshall's positive effect on the local economy goes beyond being one of Huntington's top two employers. The university's research corporation, medical school and graduate programs are dedicated to bringing research and development dollars into the community. The university's medical school is a nationwide leader for rural healthcare delivery.

Huntington has experienced several positive industrial developments in the last 10 plus years. According to the Huntington Area Development Council, 9,000 new jobs have been brought to the Huntington area in the last ten years and 1.7 million square feet of building space has been leased, sold or built. In 2005 the \$60 million Pullman Square open-air retail, restaurant and entertainment project was completed to rejuvenate the downtown "Superblock" area, immediately increasing downtown usage. The Harris Riverfront Park promenade that stretches along the Ohio River and downtown is also a target of revitalization efforts.

Kinetic Park was another major development to open for business in 2005. This 95-acre site was developed to become a business and technology park/retail area. Early tenants included professional service firms and a restaurant. In addition, Marshall University and the Huntington Area Development Council, both committed to promoting the biotech industry in the area, have teamed up to plan to develop the Velocity Center in Kinetic Park. The Velocity Center is envisioned as a technology business incubator that will work with the Robert C. Byrd Biotechnology Center at Marshall University to explore and expand commercial applications to technology innovations. The 60,000-square-foot building is also projected to house other technology businesses, including AFB-TECH, the American Foundation for the Blind Employment and Technology Center in Huntington.

Other developments in the area include the opening of two call centers. Amazon.com opened a call center in 2000 that employs 350. Global Contact Services opened a call center in 1998 and in recent years announced the intent to expand their facility and employee base. The expansion will make them one of the larger employers in the area.

The Huntington area also serves as a regional shopping center. The Huntington Mall, the largest mall in the state, houses over 150 stores, restaurants and boutiques. It is anchored by Sears, Macy's, JC Penney, Elder Beerman and Dick's Sporting Goods. Many retail stores surround the mall including Best Buy, Kohl's and Wal-Mart. Only a few minutes west on U.S. 60 from the Huntington Mall is another growing shopping plaza, Merritt Creek Farm. This plaza of 30-plus shops includes Home Depot, Target, Marshall's, and the state's first freestanding Starbucks. River Place, a bustling shopping center located near the entrance to downtown Barboursville, is just another few miles down the road. This area features many locally owned restaurants and stores.

Huntington's medical community provides health care for the region, which also includes portions of Ohio and Kentucky. St. Mary's Hospital is the second-largest health care facility in West Virginia with 393 beds, and has recently completed a \$28 million regional heart center and expanded emergency medicine department. Cabell-Huntington Hospital, with 322 beds, recently opened its \$84 million North Patient Tower, and shares its campus with the Marshall University Medical Center and the \$44 million Edwards Comprehensive Cancer Center, which opened in 2006. The two hospitals are jointly designated as a Level II trauma center. The third area hospital, the Huntington VA Medical Center, is an 80-bed medical and surgical facility. In 1998 the hospital completed a \$10 million research facility. These hospitals are three of the top employers in the region.

Huntington's historic roots as an industrial hub remain alive today. Located along the Ohio River, Huntington was founded as the western terminus of the C&O Railroad. CSX, the successor to C&O, still maintains operations in the city. Huntington's inland port along the Ohio River is the largest in the United States in terms of total tonnage and ton-miles, and much of the coal mined in southern West Virginia is brought to Huntington via train to be transported by river barges to industrial centers in other parts of the country. Several heavy industrial plants still line the Ohio River and the Guyandotte River.

ORGANIZATION

Champion's three lines of business are comprised of nineteen operating divisions. The Huntington headquarters provides centralized financial management and administrative services to all of its business segments.

Commercial Printing

Eight commercial printing divisions are located in Huntington, Charleston and Parkersburg, West Virginia; Lexington, Kentucky; Baton Rouge, Louisiana; Cincinnati, Ohio; Kingsport, Tennessee; and Asheville, North Carolina. Each has a sales force, a customer service operation and a pre-press department that serve the customers in their respective geographic areas. Although each customer's interface is solely with its local division's personnel, its printing job may be produced in another division using the equipment most suited to the quality and volume requirements of the job. In this way, for example, Champion can effectively compete for high quality process color jobs in Lexington by selling in Lexington, printing in Cincinnati and binding in Huntington. The full range of printing resources is available to customers in the entire market area without Champion having to duplicate equipment in each area.

Interform Corporation, doing business as Interform Solutions and located in Bridgeville, Pennsylvania, manufactures business forms and related products, which it sells through a network of independent distributors concentrated in Eastern Pennsylvania, New Jersey and metropolitan New York.

Consolidated Graphic Communications division in Bridgeville, Pennsylvania operates as a full line printing and printing services distributor. The division offers complete print management, fulfillment services and B2B e-commerce solutions.

Carolina Cut Sheets, Inc., located in Huntington, West Virginia, manufactures single sheet business forms which are sold to other commercial printers and dealers and through the Company's other divisions.

The Huntington, West Virginia division of Chapman Printing Company manufactures single sheet and multi-part, snap-out and continuous business forms for sale through many of the Company's commercial printing divisions.

U.S. Tag, located in Huntington, West Virginia, manufactures and sells tags used in the manufacturing, shipping, postal, airline and cruise industries throughout the United States through dealers and the Company's other divisions.

Chapman Printing in Charleston, West Virginia operates as a full line printing, printing services distributor and office products and office furniture distributor. Chapman Printing Charleston offers complete print management, fulfillment, mail, digital print, office furniture and print and office products and B2B e-commerce solutions. The Syscan operation was consolidated into the Chapman Printing Charleston division effective November 1, 2005. This division also operates a facility in Morgantown, West Virginia providing printing, office products and office furniture, distribution and integration services. In 2007, the Chapman Printing Charleston division spun off its print on demand and mail operations into a new division located in Charleston, West Virginia operating under the name Champion Output Solutions. Champion Output Solutions is a comprehensive transactional printing and mail center providing statement rendering, check and explanation of benefits variable print, medical billing and postal optimization.

River Cities Printing was acquired via the acquisition of The Herald-Dispatch and is a commercial printer with sales comprised primarily of stick-on labels and other commercial printing. In 2008, River Cities Printing was relocated to an existing facility in Huntington, WV.

Office Products, Office Furniture and Office Design

Stationers, located in Huntington, Clarksburg (doing business as “Champion Clarksburg”), Morgantown (through its Chapman Printing Morgantown division) and Parkersburg, West Virginia (doing business as “Chapman Printing”), provides office products and office furniture primarily to customers in the Company's West Virginia, Ohio and Kentucky market areas. Products are sold by printing division sales people and delivered in bulk daily to each division, or shipped directly to customers.

Smith & Butterfield, located in Evansville, Indiana, provides office products and office furniture primarily to customers in the Company's Indiana and Kentucky market areas. Products are sold by Smith & Butterfield sales personnel and delivered to customers daily.

Stationers, through its Capitol division, offers office design services throughout West Virginia and eastern Kentucky.

Newspaper

The Herald-Dispatch, located in Huntington, WV, publishes a daily newspaper with a daily and Sunday circulation of approximately 24,000 and 30,000 respectively.

PRODUCTS AND SERVICES

Printing Services

Champion's primary business is commercial printing and business forms manufacturing. The Company, unlike most of its regional competitors, offers the full range of printing production processes, enabling the Company to provide customers a one-stop, one-vendor source without the time and service constraints of subcontracting one or more aspects of production. Major production areas include: (i) printing of business cards, letterhead, envelopes, and one, two, or three color brochures; (ii) process color manufacturing of brochures, posters, advertising sheets and catalogues; (iii) die cutting and foil stamping; (iv) bindery services, including trimming, collating, folding and stitching the final product; (v) forms printing, encompassing roll-to-roll computer forms, checks, invoices, purchase orders and similar forms in single-part, multi-part, continuous and snap-out formats; (vi) tag and label manufacturing; (vii) high volume process color web printing of brochures and catalogs; and (viii) output solutions including print on demand, inserting and mailing services. The capabilities of the Company's various printing divisions are stated below.

Edgar Filing: CHAMPION INDUSTRIES INC - Form 10-K

Division	Sales & Customer Service	Pre-Press	Sheet Printing	Rotary Printing	Full Color	High Volume Full Color	Output Solutions
Huntington	*	*	*	*			
Charleston / Morgantown	*	*					
Champion Output Solutions	*						*
Parkersburg	*	*	*		*		
Lexington	*	*					
Champion Graphic Communications (Baton Rouge)	*	*	*		*		
Champion Graphic Communications (New Orleans)	*						
Carolina Cut Sheets, Inc.	*						
U.S. Tag & Ticket Company, Inc.	*	*		*			
Donihe Graphics, Inc.	*	*	*	*	*	*	
The Merten Company	*	*	*		*		
Interform Corporation	*	*		*	*		*
Consolidated Graphic Communications	*	*					
Blue Ridge Printing Co., Inc.	*	*	*		*		
River Cities Printing	*	*		*			

* - Services Provided

12

Office Products, Office Furniture and Office Design

Champion provides its customers with a wide range of product offerings in two major categories: supplies, such as file folders, paper products, pens and pencils, computer paper and laser cartridges; and furniture, including budget and middle price range desks, chairs, file cabinets and computer furniture. Office supplies are sold primarily by Company salespeople through the Company's own catalogs. Office furniture is primarily sold from catalogs and supplied from in-house stock. Special orders constitute a small portion of sales. The Capitol division of Stationers provides interior design services to commercial customers. The design services include space planning, purchasing and installation of office furniture, and management of design projects.

Newspaper

The Company provides its customers in the Tri-State regions surrounding Huntington, West Virginia with the primary and premier print advertising solutions for the region.

MANUFACTURING AND DISTRIBUTION

The Company's pre-press facilities have desktop publishing, typesetting, laser imagesetting and scanning/retouching equipment, as well as complete layout, design, stripping and plate processing operations. Sheet printing equipment (for printing onto pre-cut, individual sheets) includes single color duplicators, single to eight color presses and envelope presses. Rotary equipment (for printing onto continuous rolls of paper) includes multi-color business form web presses, carbon and multi-part collators, and a high-speed 5-color half-web press.

Binding equipment consists of hot-foil, embossing and die cutting equipment, perforators, folders, folder-glueers, scoring machines, collator/stitcher/trimmers for saddle stitching, automatic and manual perfect binders, numbering machines and mailing equipment.

Each of the Company's offices is linked with overnight distribution of products and on-line electronic telecommunications permitting timely transfer of various production work from facility to facility as required. While the Company maintains a fleet of delivery vehicles for intracompany and customer deliveries, it utilizes the most cost effective and expeditious means of delivery, including common carriers.

Requirements for the Company's press runs are determined shortly before the runs are made and, therefore, backlog is not a meaningful measure in connection with the Company's printing business.

The Company's inventory goal is to have approximately 85% of the office product items the Company sells in stock. Another 12% are ordered on a daily basis and received overnight. The remaining 3% are items that come direct from manufacturers and may take one week or more from placement of order to delivery to customer. Office furniture sales for mid-line and budget are made primarily from the Company's in-house stock. However, special orders from manufacturers and project furniture may require 30 to 90 days for delivery.

The newspaper is produced nightly at its own in-house facility. The paper is then distributed via contract haulers between 3:00AM and 4:00AM each morning. The contract haulers then deliver the papers to each of the route delivery personnel for a targeted delivery of 6:00AM each morning.

CUSTOMERS

The Company believes that its reputation for quality, service, convenience and selection allows it to enjoy significant loyalty from its customers. Champion's marketing strategy is to focus on manufacturers, institutions, financial services companies and professional firms. Consistent with customary practice in the commercial printing and office products industries, the Company ordinarily does not have long-term contracts with its customers, although a number of high volume customers issue yearly purchase orders. These purchase orders, which are typically for office products but may include printing services, are for firm prices adjustable for paper price changes. Depending upon customer satisfaction with price and service, these purchase orders may be renewed for another year or up to three years without repeating the full bidding process.

During the fiscal years ended October 31, 2009, 2008 and 2007, no single customer accounted for more than 3% of the Company's total revenues. Due to the project-oriented nature of customers' printing and furniture requirements, sales to particular customers may vary significantly from year to year depending upon the number and size of their projects.

SUPPLIERS

The Company has not experienced difficulties in obtaining materials in the past and does not consider itself dependent on any particular supplier for supplies. The Company has negotiated company-wide paper purchasing agreements directly with paper manufacturers and is a member of a major office products buying group, which management believes provides the Company with a competitive advantage. The Company is also affiliated with a buying group with a national organization for its newsprint purchases.

COMPETITION

The markets for the Company's printing services and office products are highly competitive, with success based primarily on price, quality, production capability, capacity for prompt delivery and personal service.

Champion's printing competitors are numerous and range in size from very large national companies with substantially greater resources than the Company to many smaller local companies. In recent years, despite consolidation within the printing industry, there has been a substantial increase in technological advances in new equipment, resulting in excess capacity and highly competitive pricing. The Company has remained competitive by maintaining its printing equipment at state-of-the-art levels and emphasizing personal attention to customers.

Large national and regional mail order discount operations provide significant competition in the office products and office furniture business. The economies afforded by membership in a national purchasing association and by purchasing directly from manufacturers, and the high level of personal services to customers, contribute substantially to the Company's ability to compete in the office supply and office furniture market segments.

The Herald-Dispatch faces limited competition from other daily newspapers in its primary market area of Cabell County, West Virginia. The Herald-Dispatch competes with other advertising media in its designated market area, including television and radio advertising.

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 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 and are included in normal operating expenses. 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.

GEOGRAPHIC CONCENTRATION AND ECONOMIC CONDITIONS

The Company's operations and the majority of its customers are located in the United States of America, east of the Mississippi River. The Company and its profitability may be more susceptible to the effects of unfavorable or adverse local or regional economic factors and conditions than a company with a more geographically diverse customer base.

The Company's newspaper operations are geographically concentrated and serve a regional market area in southwestern West Virginia primarily covering Cabell County, West Virginia, parts of neighboring Wayne County, West Virginia and eastern Lawrence County, Ohio.

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 filed insurance claims related to both actual and contingent losses. The Company received an advance to claim payment from an insurance company of \$300,000 in February 2006 and final settlement claims of \$278,000 in April and May 2006. The Company recorded the \$300,000 payment as an insurance recovery and related receivable at January 31, 2006. The Company recorded additional charges of approximately \$42,000 in the first quarter of 2006 associated with Hurricane Katrina. The Company received a second advance to claim check in April of 2006 in the amount of \$200,000 and a full settlement of any and all claims check of \$78,000 in May of 2006. The Company recorded the aggregate amount of these checks as an insurance recovery and the \$78,000 as a related receivable at April 30, 2006. The Company incurred additional charges of \$234,000 primarily related to additional inventory valuation reserves and costs associated with relocation in the second quarter of 2006. During the fourth quarter of 2006 the Company successfully negotiated an early lease termination related to its New Orleans location resulting in Katrina related recoveries of approximately \$76,000.

SEASONALITY

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

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

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

EMPLOYEES

On October 31, 2009, the Company had approximately 790 employees.

The Company's subsidiary, Interform Corporation, is party to a collective bargaining agreement with the United Steelworkers of America, AFL-CIO-CLC on behalf of its Local Union 8263 covering all production and maintenance employees (totaling approximately 40 employees at October 31, 2009) at its Bridgeville, Pennsylvania facility. This contract expires May 31, 2010. As a result of the acquisition of The Herald-Dispatch, the Company also is party to a collective bargaining agreement with Graphic Communication Conference/ International Brotherhood of Teamsters Local 619-M of District Council 3 covering newspaper press production employees (totaling approximately 10 employees at October 31, 2009) at The Herald-Dispatch Huntington, West Virginia location. The contract expires December 31, 2010. The Company believes relations with the unions and covered employees are good.

EXECUTIVE OFFICERS OF CHAMPION

Position and offices with Champion;

Name	Age	Principal occupation or employment last five years
Marshall T. Reynolds	73	Chief Executive Officer and Chairman of the Board of Directors of the Company from December 1992 to present; President of the Company December 1992 to September 2000; President and General Manager of Harrah and Reynolds, predecessor of the Company from 1964 (and sole shareholder from 1972 to present) to 1993; Chairman of the Board of Directors of River City Associates Inc. (owner of the Pullman Plaza Hotel) since 1989; Chairman of the Board of Directors of Broughton Foods Company from November 1996 to June 1999; Director (from 1983 to November 1993) and Chairman of the Board of Directors (from 1983 to November 1993) of Banc One West Virginia Corporation (formerly Key Centurion Bancshares, Inc.).
Toney K. Adkins	60	President and Chief Operating Officer of the Company since January 2005; Vice President-Administration of the Company from November 1995 to January 2005; President, KYOWVA Corrugated Container Company, Inc. from 1991 to 1996.
J. Mac Aldridge	68	

Senior Vice President of the Company and Division Manager - Stationers since January 2005; Vice President and Division Manager - Stationers from December 1992 to January 2005; Vice President of Company and Division Manager - Huntington from September 1995 to October 1997; President and General Manager of Stationers since November 1989; Sales Representative of Huntington Division of Harrah and Reynolds from July 1983 to October 1989.

R. Douglas McElwain	62	Senior Vice President and Division Manager - Champion Graphic Communications Division of the Company since January 2005; Vice President and Division Manager - Bourque Printing division of the Company from December 1993 to January 2005; General Manager of Bourque Printing from June 1993 to December 1993; Sales Representative of Charleston Division of Harrah and Reynolds and Company from 1986 until June 1993.
Todd R. Fry	44	Senior Vice President and Chief Financial Officer of the Company since January 2005; Vice President and Chief Financial Officer of the Company from November 1999 to January 2005; Treasurer and Chief Financial Officer of Broughton Foods Company from September 1997 to June 1999; Coopers & Lybrand L.L.P. from 1991 to September 1997.
Walter R. Sansom	80	Secretary of the Company since December 1992; Production Coordinator of the Company since December 1992 and of Harrah and Reynolds from August 1968 to December 1992.
James A. Rhodes	53	Senior Vice President of the Company since January 2005; Vice President of the Company from March 1999 to January 2005; President of Interform since October 2004; President of Consolidated Graphic Communications Division of Interform since February 1999; Vice President of Sales of Consolidated Graphic Communications from 1996 to 1999; General Sales Manager - Eastern Division of Consolidated Graphic Communications from 1995 to 1996.

ITEM 1A - RISK FACTORS

The Company's business and results of operations are subject to a number of risks, many of which are outside of the Company's control. In addition to the other information in this report, readers should carefully consider that the following important factors, among others, including risks not presently known or currently deemed immaterial by us could materially impact the Company's business and future results of operations.

Dependence on Marshall T. Reynolds; Control of the Company.

The Company's operations and prospects are dependent in large part on the continued efforts of Marshall T. Reynolds. The loss of Mr. Reynolds could have an adverse effect on the Company. In addition, by virtue of Mr. Reynolds' ownership of Company common stock, Mr. Reynolds will continue to significantly influence our operations. As of October 31, 2009, Marshall T. Reynolds and his affiliated entities, including The Harrah and Reynolds Corporation ("Harrah and Reynolds"), held 4,266,127 shares (41.8%) of the common stock of the Company. Sales by Mr. Reynolds of common stock could adversely affect the prevailing market price of the common stock. The Company is unable to estimate the amount of common stock, if any, that may be sold in the future.

The Company operates in a highly competitive market that could negatively impact our results of operations.

In the printing segment, there has been an ongoing consolidation resulting in fewer competitors. This in part has resulted in numerous competitors that are larger with greater geographic diversity and broader product offerings. In addition, the office products and office furniture industries are extremely competitive and fragmented. The Company competes with numerous large and small companies that operate in each industry, some of which have greater financial resources than the Company. The Company competes on the basis of its reputation for quality, production capability, prompt delivery, price and strength of its continuing customer relationships.

Our supply-chain management services are embedded into our printing and office products and office furniture segments. The competitive factors faced by the Company include customer service, price, distribution geography, information technology and the customer's fulfillment and distribution needs.

The Company may be adversely impacted by the rising costs of critical raw materials such as paper, ink, energy, postage and other raw materials.

Our primary raw material is paper, therefore, the purchase of paper and other raw materials such as ink, energy, postage and items we distribute such as office products and office furniture and goods and services represent a large portion of our costs. Any increases in the costs of these items will also increase our costs. Depending on the nature of such increases we may not be able to pass these costs on to customers through higher prices. Increases in the costs of these items may also adversely impact our customers' demand for printing and related services as well as for office products and office furniture.

The Company has substantial investment in the credit worthiness and financial condition of our customers.

The largest current asset on the Company's balance sheet on a net basis is our accounts receivable balances from our customers. We grant credit to substantially all of our customers. A decline in financial condition across a significant component of our customer base could hinder our ability to collect amounts owed by customers. In addition, such a decline could result in lower demand for our services. The potential causes of such a decline include national or local economic downturns, the fact that many of our customers are in highly-competitive industries or markets and the impact of regulatory actions may impact the financial stability of our customers.

We may have difficulty adjusting our operating models to meet changing or current market conditions.

Because the markets in which we compete are highly-competitive, we must continue to improve our operating efficiency in order to maintain or improve our profitability. Although we have been able to improve efficiency and reduce costs in the past, there is no assurance that we will continue to do so in the future. In addition, the need to reduce ongoing operating costs may result in significant up-front costs to reduce workforce, close or consolidate facilities, or upgrade equipment and technology.

We may be unable to grow through acquisitions or to successfully integrate acquired businesses.

The Company has historically grown through a combination of organic growth and acquisitions. It is critical that the Company achieve the anticipated benefits of acquisitions. The integration of companies that have previously operated independently may result in significant challenges, and we may be unable to accomplish the integration smoothly or successfully. In particular, the coordination of geographically dispersed organizations with differences in corporate cultures and management philosophies may increase the difficulties of integration. The integration of acquired businesses may also require the dedication of significant management resources, which may temporarily shift senior management's attention from the other day-to-day operations of the Company. Our strategy is, in part, predicated on our ability to realize cost savings and to increase revenues through the acquisition of businesses that strategically enhance our capabilities and services.

We may have difficulty hiring and retaining appropriate employees including senior management.

Our success depends, in part, on our general ability to attract, develop, motivate and retain highly skilled employees. The loss of a significant number of our employees or the inability to attract, hire, develop, train and retain additional skilled personnel could have a material adverse effect on us. We currently operate in several locations with geographic diversity, individual locations may encounter strong competition from other employers for skilled labor. In addition, many members of our management have significant industry experience and a long track record with us that is important to our continued success. If one or more members of our senior management team leave and we cannot replace them with a suitable candidate quickly, we could experience difficulty in managing our business properly, which could harm our business and results of operations.

We may be negatively impacted by strikes or other work stoppages by our employees.

We employ approximately 50 persons who are covered by collective bargaining agreements. If our unionized employees were to engage in a concerted strike or other work stoppage, or if our other employees were to become unionized, we could experience a disruption of operations, higher labor costs or both.

We may have increased employee benefit costs for health care and other benefits.

We provide health care and certain other benefits to our employees. In recent years, costs for health care have increased more rapidly than general inflation in the U.S. economy. If this trend in health care costs continues, our cost to provide such benefits could increase, adversely impacting our business and results of operations.

We may be negatively impacted by declines in general economic conditions or acts of war and terrorism.

Demand for printing services is highly correlated with general economic conditions. A decline in U.S. economic conditions may, therefore, adversely impact our business and results of operations. Because such outcomes are difficult to predict, the industry may experience excess capacity resulting in declines in prices for our services. The overall business climate may also be impacted by foreign wars or domestic or foreign acts of terrorism. Such acts may have sudden and unpredictable adverse impacts on demand for our services.

We may face adverse pricing pressures as a result of operating in a highly-competitive market.

The markets for our services are highly fragmented and we have a large number of competitors, resulting in a highly-competitive market and increasing the risk of adverse pricing pressures in various circumstances outside of our control, including economic downturns.

We are dependent on the markets utilizing printed materials in lieu of alternative media. If this changes we may be adversely affected.

In addition to traditional non-print based marketing and advertising channels, online distribution and hosting of media content may gain broad acceptance or preferred status relative to printed materials among consumers generally and have an adverse effect on our business. Consumer acceptance of electronic delivery as well as the extent that consumers may have previously replaced traditional reading of print material with online hosted media contents is uncertain. We have no ability to predict the likelihood that this may occur.

We may be adversely affected by regulatory requirements, tax requirements and The Sarbanes-Oxley Act.

We are subject to numerous rules and regulations, including, but not limited to, environmental and health and welfare benefit regulations as well as those associated with being a public company as well as numerous federal, state, and local tax rules and regulations. These rules and regulations and associated interpretations may be changed by local, state or federal governments or agencies. Changes in these regulations may result in a significant increase in our compliance costs. Compliance with changes in rules and regulations could require increases to our workforce, increased cost for services, compensation and benefits, or investments in new or upgraded equipment. In addition, audits and examinations of prior years may result in liabilities and additional financial burdens. The Company will be subject to reporting on internal controls in accordance with Section 404 of The Sarbanes-Oxley Act for auditors attestation for fiscal years ending on or after June 15, 2010. The Company is currently unable to predict the cost or difficulties required to complete such certifications.

We are highly dependent on information technology. If our systems fail or are unreliable our operations may be adversely impacted.

The efficient operation of our business depends on our information technology infrastructure and our management information systems. In addition, production technology in the printing industry has continued to evolve specifically related to the pre-press component of production. We rely on our management information systems to effectively manage accounting and financial functions, job entry, tracking and cost accumulation and certain purchasing functions as well as fulfillment and inventory management including e-commerce activities. Our information technology infrastructure includes both third party solutions and applications designed and maintained internally. Since our Company operates on multiple platforms, the failure of our information technology infrastructure and/or our management information systems to perform could severely disrupt our business and adversely affect our results of operation. In addition, our information technology infrastructure and/or our management information systems are vulnerable to damage or interruption from natural or man-made disasters, terrorist attacks, computer viruses or hackers, power loss, or other computer systems, Internet telecommunications or data network failures. Any such interruption could adversely affect our business and results of operations.

Competition from alternative forms of media may impair our ability to achieve revenue growth.

Advertising produces the predominant share of our newspaper revenues. With the continued development of alternative forms of media, particularly those based on the Internet, our traditional print business faces increased competition. Alternative media sources also affect our ability to increase our circulation revenues. This competition could make it difficult for us to grow our advertising and circulation revenues, which we believe will challenge us to expand the contributions of our online business.

