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CHAMPIONS SPORTS INC
Form 10QSB
September 12, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Mark One

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

For the quarterly period ended July 31, 2002

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 number 0-17263

CHAMPIONS SPORTS, INC.
(Exact name of registrant as specified in its charter)

Delaware 52-1401755
(State or other jurisdiction of (I.R.S. Employer
organization) Identification No.)

Suite 214, 2420 Wilson Blvd., Arlington VA 22201
(Address of principal executive offices)
(Zip code)

(703) 526-0400
(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 x No

As of September 12, 2002 the Registrant had a total of 8,514,459 shares of common stock outstanding.

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CHAMPIONS SPORTS, Inc.
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CHAMPIONS SPORTS, INC. AND SUBSIDIARIES Consolidated Balance Sheets

Assets

	July 31, 2002	April 30, 2002
	-----	-----
Current assets		
Cash and cash equivalents	\$ 400,266	\$ 449,282
Accounts receivable - trade	-	54

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Inventories	28,855	25,555
Prepaid expenses	12,738	14,035
	-----	-----
Total current assets	441,859	488,926
Property and equipment		
Furniture and equipment	582,669	577,371
Leasehold improvements	584,772	584,772
	-----	-----
	1,167,441	1,162,143
Accumulated depreciation and amortization	(888,537)	(876,432)
	-----	-----
	278,904	285,711
Other assets		
Deposits	11,052	11,052
	-----	-----
Total assets	\$ 731,815	\$ 785,689
	=====	=====

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable	\$ 136,540	\$ 88,104
Dividend payable on preferred stock	511,442	511,442
Other accrued expenses	59,351	52,790
Deferred revenue	89,531	124,871
Current portion of deferred lease concession	4,363	4,363
Current portion of capital lease obligation	-	1,929
Total current liabilities	801,227	783,499
	-----	-----
Capital lease obligation, net of current portion	-	-
Deferred lease concession, net of current portion	6,105	7,195
	-----	-----
Total liabilities	807,332	7,195
	-----	-----
Stockholders' equity		
Preferred stock		
Series A, 12% Convertible Cumulative; \$10 par value; preferred as to dividends and liquidation; 56,075 shares authorized and 53,125 shares issued and outstanding for July 31 and April 30, 2002	531,252	531,252
Common stock, par value \$.001 per share, 50,000,000 shares authorized and 8,514,459 shares issued and outstanding for July 31 and April 30, 2002	8,514	8,514
Additional paid-in capital	5,397,598	5,392,599
Accumulated deficit	6,012,881)	(5,937,370)

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	-----	-----
Total stockholders' equity	(75,517)	(5,005)
	-----	-----
Total liabilities and stockholders' equity	\$ 731,815	\$ 876,235
	=====	=====

See notes to consolidated financial statements

CHAMPIONS SPORTS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	July 31,	
	2002	2001
	----	----
Revenue		
Food and beverage	\$507,115	\$530,409
Merchandise, memorabilia, and consulting fees	8,133	18,108
Interest income	1,180	3,429
Other income	1,654	2,994
	-----	-----
	518,082	554,940
Costs and expenses		
Cost of food and beverage sales	120,513	137,926
Cost of merchandise and memorabilia	21,897	34,793
Restaurant payroll and related costs	181,347	185,819
Restaurant occupancy costs	72,402	64,464
Other restaurant costs	87,066	86,797
General and administrative	98,183	66,335
Depreciation and amortization	12,105	12,105
Interest	50	578
	--	---
	593,563	588,817
Operating income (loss) before income tax expense	(75,481)	(33,877)
Income tax expense	-	-
Net loss	(75,481)	(33,877)
Less preferred stock dividends	(15,938)	(15,938)
	-----	-----
Net income (loss) available to common stockholders	\$ (91,419)	\$ (49,815)

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	=====	=====
Basic earnings (loss) per share	\$ (0.01)	\$ (0.01)
	-----	-----
Earnings (loss) per common share - assuming dilution	\$ (0.01)	\$ (0.01)
	-----	-----
See notes to consolidated financial statements		

Increase (Decrease) in Cash and Cash Equivalents
For the three months ended July 31

	2002	2001
	----	----
Cash flow from operating activities:		
Net loss	\$ (75,481)	\$ (33,877)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	12,104	12,104
Changes in assets and liabilities:		
Accounts receivable	54	1,326
Inventories	(3,300)	9,879
Prepaid expenses	1,297	(5,005)
Accounts payable	48,436	(4,480)
Other accrued expenses	6,531	8,820
Deferred revenues	(35,340)	-
Deferred lease concessions	(1,090)	(363)
	-----	-----
Net cash provided (used) by operating activities	(46,789)	(11,596)
Cash flows from investing activities:		
Stock subscriptions	5,000	-
Purchases of property and equipment	(5,298)	-
	-----	-----
Net cash (used) by investing activities	(298)	-
Cash flows from financing activities:		
Principal payments on capital lease	(1,929)	(2,384)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(49,016)	(13,980)
Cash and cash equivalents at beginning of year	449,282	451,650
	-----	-----

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Cash and cash equivalents at July 31	\$400,266 =====	\$437,670 =====
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$50	\$578

See notes to consolidated financial statements

CHAMPIONS SPORTS, INC.

Notes to Consolidated Financial Statements

July 31, 2002

Summarized Financial Information

Company or group of companies for which report is filed:

CHAMPIONS Sports, Inc. and Subsidiaries

The consolidated balance sheet as of July 31, 2002, the consolidated statements of operations and the consolidated statements of cash flows for the three months ended July 31, 2002 and July 31, 2001 have been prepared by the company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flow at July 31, 2002 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's 10-KSB as of April 30, 2002. The results of operations for the period ended July 31, 2002 are not necessarily indicative of the operating results for the full year.

Item 2. Managements Discussion and Analysis of Financial Condition and Results of Operations

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Results of Operation

For the three months ended July 31, 2002, the Company's net loss was \$75,481, and the net loss available for common shareholders was \$91,419, (\$0.01) per common share. The Company's total assets decreased by \$53,874 to \$731,815 from \$785,689 at April 30, 2002.

For the three months ended July 31, 2001, the Company's net loss was \$33,877 and the net loss available for common shareholders was \$49,815, (\$0.01) per common share. The Company's total assets decreased by \$32,285 to \$843,950 at July 31, 2001 from \$876,235 at April 30, 2001

Revenues

The Company's total revenues were \$518,082 for the three months ended July 31, 2002 versus \$554,940 for the three-month period ended July 31, 2001, a decrease of \$36,858 or 6.6%. By component, food and beverage sales decreased 4.4% from the previous year. This decline in food and beverage sales is attributed to a decrease in customer volume due to the slowing economic climate. Merchandise, memorabilia and consulting revenues were \$8,133 for the three months ended July 31, 2002 compared to \$18,108 for the three months ended July 31, 2001. Interest income was less than 1.0% of the Company's total revenue for both comparable periods. Other income also represented less than 1.0% of total revenues for the three months ended July 31, 2002 and 2001.

Expenses

Cost of food and beverage was 23.8% and 26.0 % of related sales for the three months ended July 31, 2002 and 2001. Cost of merchandise and memorabilia sales for the three months ended July 31, 2001 was \$21,897 compared to \$34,793 in the preceding year. Restaurant payroll and related costs were 35.8% of related food and beverage sales for the three months ended July 31, 2002 and 35.0% for the three months ended July 31, 2001. The increase in restaurant payroll is attributed to the necessity to increase hourly wages to retain experienced workers. Restaurant occupancy costs were \$72,402 or 14.3% of food and beverage sales compared to \$64,464 or 12.2% of related sales during the three months ended July 31, 2002. This increase in occupancy costs is attributed to the percentage paid to the landlord in common area charges and base rent. Other restaurant costs were 17.2% of related food and beverage sales for the three months ended July 31, 2002 compared to 16.4% of related sales during the three months ended July 31, 2001. General and administrative expense for the Company's corporate office was 19.0% of the Company's total revenues for the three months ended July 31, 2002 compared to 16.4 % of total revenues for the three months ended July 31, 2002. Depreciation and amortization expense were constant at approximately 2% of the Company's total revenues during each comparable period.

Liquidity and Capital Resources

The Company's cash position as of July 31, 2002 was 400,266 compared to \$449,282 on April 30, 2002, a decrease of \$49,016. For the three month period, the Company's operations used \$46,789 in cash in excess of revenues. The Company received \$5,000 from a common share subscription. The Company purchased equipment for its restaurant in San Antonio totaling \$5,298 and finished paying for a capital lease of \$1,929. The Company met its liquidity needs during the period from its revenues, cash reserves and cash flow provided from its San Antonio location.

The Company's cash position on July 31, 2001 was \$437,670 compared to \$451,650 on April 30, 2001 a decrease of \$13,980. For the three months ended July 31, 2001, the Company's operations used \$11,596 in cash. The Company used

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its cash to repay a capital lease for \$2,384. The Company met its liquidity needs during the period from its revenues, cash reserves and cash flow provided from its San Antonio location. The Company is uncertain that it will be able to meet its cash requirements for the next twelve months from its cash reserves and from its operating activities.

The Company's working capital was a negative \$359,368 on July 31 2002 and \$294,573 on April 30, 2002.

Stockholder's equity was a negative \$75,517, as of July 31, 2002 compared to a negative \$60,005 as of April 30, 2002.

The Company continues to review and evaluate its operations and priorities. The Company is actively pursuing merger or acquisition candidates to meet its liquidity needs. There is no assurance that the Company will be able to structure a merger or acquisition on terms satisfactory to the Company.

Other

In January 2002, the Company entered into an agreement with a private investor, to purchase from the Company 4,000,000 shares of the Company's common restricted stock at a purchase price of \$0.125 per share in the aggregate amount of \$500,000 payable in monthly installments to be used by the Company to provide general working capital. The purchaser has paid a total of \$60,000 at July 31, 2002 and has not met the payment terms of the agreement. The Company believes that the agreement may not be fulfilled.

This document contains "forward-looking statements" (within the meaning of the Private Securities Litigation Act of 1995) that inherently involve risk and uncertainties. The Company's actual results could differ materially from those anticipated in the forward-looking statements as a result of unforeseen external factors. These factors may include, but are not limited to, changes in general economic conditions, the ongoing threat of terrorism, customer acceptance of products offered and other general competitive factors, and the ability to have access to financing sources on reasonable terms. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date hereof.

Part II. Other Information

Item 4. Submission of Matters to A Vote of Security Holders

None

Item 6. Exhibits and Reports on Form 8-K

None.

SIGNATURES

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

CHAMPIONS Sports, Inc.

/s/ James Martell
James Martell
Chairman, President
and Chief Executive Officer

/s/ James E. McCollam
James E. McCollam
Corporate Secretary, Chief Accounting
Officer and Controller

September 12 2002