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CHAMPIONS SPORTS INC  
Form 10QSB  
December 06, 2002

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-QSB

Mark One

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

For the quarterly period ended October 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  
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CHAMPIONS SPORTS, INC.  
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(Exact name of registrant as specified in its charter)

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

2420 Wilson Boulevard, Suite 214, 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 December 6, 2002 the Registrant had a total of 8,514,459 shares of common stock outstanding.

CHAMPIONS SPORTS, Inc.

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

#### Assets

	October 31, 2002	April 30, 2002
Current assets		
Cash and cash equivalents	\$295,580	\$449,282
Accounts receivable - trade	5,246	54
Inventories	24,707	25,555
Prepaid expenses	16,801	14,035
	-----	-----
Total current assets	342,334	488,926
Property and equipment		
Furniture and equipment	586,724	577,371
Leasehold improvements	584,772	584,772

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Accumulated depreciation and amortization	1,171,496 (900,641)	1,162,143 (876,432)
	-----	-----
	270,855	285,711
	-----	-----
Other assets		
Deposits	11,052	11,052
	-----	-----
Total assets	\$624,241 =====	\$785,689 =====

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable	88,610	88,104
Dividend payable on preferred stock	511,442	511,442
Other accrued expenses	53,435	52,790
Deferred revenue	-	124,871
Current portion of deferred lease concession	4,363	4,363
Current portion of capital lease obligation	-	1,929
	-----	-----
Total current liabilities	657,850	783,499
	-----	-----
Deferred lease concession, net of current portion	5,015	7,195
	-----	-----
Total liabilities	662,865	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 October 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 October 31 and April 30, 2002	8,514	8,514
Additional paid-in capital	5,397,598	5,392,599
Accumulated deficit	(5,975,988)	(5,937,370)
	-----	-----
Total stockholders' equity	(38,624)	(5,005)
Total liabilities and stockholders' equity	\$624,241 =====	\$876,235 =====

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See notes to consolidated financial statements

## CHAMPIONS SPORTS, INC. AND SUBSIDIARIES Consolidated Statements of Operations Unaudited

	Three months ended October 31,		Six months ended October 31,	
	2002	2001	2002	2001
	Unaudited		Unaudited	
<b>Revenue</b>				
Food and beverage	\$453,810	\$423,208	\$960,925	
Merchandise, memorabilia, and consulting fees	96,543	97,539	104,676	
Interest income	858	2,451	2,038	
Other income	2,249	4,888	3,903	
	-----	-----	-----	
	553,460	528,086	1,071,542	1,071,542
<b>Costs and expenses</b>				
Cost of food and beverage sales	\$107,817	\$109,523	\$228,330	
Cost of merchandise and memorabilia	6,728	29,157	28,625	
Restaurant payroll and related costs	164,858	151,593	346,205	
Restaurant occupancy costs	61,981	58,674	134,383	
Other restaurant costs	92,228	85,254	179,294	
General and administrative	70,850	78,365	169,033	
Depreciation and amortization	12,104	12,104	24,209	
Interest	-	457	50	
	-----	-----	-----	
	516,566	525,127	1,110,129	1,110,129
	-----	-----	-----	
Operating income (loss) before income tax expense	36,894	2,959	(38,587)	
Income tax expense	-	-	-	
	-----	-----	-----	
Net income (loss)	\$36,894	\$2,959	\$(38,587)	
	=====	=====	=====	
Less: preferred stock dividends	(15,938)	(15,938)	(31,876)	
	-----	-----	-----	
Net income (loss) available to common stockholders	20,956	(12,979)	(70,463)	
	=====	=====	=====	
Basic earnings (loss) per share	\$0.00	\$0.00	\$(0.01)	

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Earnings (loss) per common share - assuming dilution	\$0.00 =====	\$ (0.00) =====	\$ (0.01) =====
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See notes to consolidated financial statements

CHAMPIONS SPORTS, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Increase (Decrease) in Cash and Cash Equivalents

	October 31,	
	2002	2001
Cash flows from operating activities:		
Net profit (loss)	\$ (38,587)	\$ (30,918)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	24,209	24,210
Changes in assets and liabilities:		
Accounts receivable	(5,192)	1,026
Inventories	848	5,504
Prepaid expenses	(2,766)	2,872
Accounts payable	506	24,442
Other accrued expenses	645	(977)
Deferred revenues	(124,871)	(64,625)
Deferred lease concessions	(2,180)	(363)
	-----	-----
Net cash provided (used) by operating activities	(147,388)	(87,713)
Cash flows from investing activities:		
Stock subscriptions	5,000	-
Purchases of property and equipment	(9,385)	(576)
	-----	-----
Net cash (used) by investing activities	(4,385)	(576)
Cash flows from financing activities:		
Principal payments on capital lease	(1,929)	(4,890)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(153,702)	(93,179)
Cash and cash equivalents at beginning of year	449,282	451,650
	-----	-----
Cash and cash equivalents at October 31	\$295,580 =====	\$358,471 =====

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Supplemental disclosures of cash flow information:

Cash paid during the year for interest	50	1,035
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See notes to consolidated financial statements

### CHAMPIONS SPORTS, INC.

#### Notes to Consolidated Financial Statements

October 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 October 31, 2002, the consolidated statements of operations for the three months and six months ended October 31, 2002 and October 31, 2001 and the consolidated statements of cash flows for the six months ended October 31, 2002 and October 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 October 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 October 31, 2002 are not necessarily indicative of the operating results for the full year.

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.

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

#### Results of Operation

For the six months ended October 31, 2002, the Company's net loss from operations was \$38,587 before preferred stock dividends of \$31,876 resulting in a net loss available to common shareholders of \$70,463, (\$0.01) per common share. For the three months ended October 31, 2002, the Company's net profit for operations was \$36,894 before preferred stock dividends of \$15,938 resulting in a net income available for common shareholders of \$20,956.

For the six months ended October 31, 2001, the Company's net loss from operations was \$30,918 before preferred stock dividends of \$31,876 resulting in a net loss available to common shareholders of \$62,794, (\$0.01) per common share.

The Company's assets decreased to \$624,241 at October 31, 2002 from \$785,689 at April 30, 2002, as a result of the net loss for the six-month period.

#### Revenues

The Company's total revenues decreased by 1.1% for the six month period and increased 4.8% for the three month period ended October 31, 2002. The Company's total revenues were \$1,071,542 and \$1,083,026 for the six months ended October 31, 2002 and 2001. By component, food and beverage sales increased less than 1% for the comparable six-month periods. For the three-month period, food and beverage sales increased 7.2% for the comparable period. Merchandise and memorabilia sales for the six months ended October 31, 2002 were \$104,676 compared to \$115,647 in the comparable period. The Company provided sports memorabilia to one Marriott Champions location during each of the six months ended October 31, 2002 and 2001. Interest income and other income represent 2% or less of the Company's total revenues for the three months and six months ended October 31, 2002 and 2001.

#### Expenses

Cost of food and beverage were 23.8% and 25.9% of food and beverage sales of for the six months ended October 31, 2002 and 2001. Cost of merchandise and memorabilia sales was 27.3% and 55.3% of related sales for the six months ended October 31, 2002 and 2001. Restaurant payroll and related costs also remained relatively constant at 36.0% and 35.4% of related sales for the six months ended October 31, 2002 and 2001. Restaurant occupancy costs increased to 14.0% of restaurant sales compared to 12.9% of related sales for the six-month comparable periods. This is attributed to an increase in common area charges and real estate taxes passed on by the landlord. Other restaurant costs were 18.7% of sales compared to 18.0% for the comparable period. General and administrative expense for the Company's corporate office was \$169,033 or 15.7% of the Company's total revenues for the six months ended October 31, 2002 compared to \$144,700 or 13.4% for the six months ended October 31, 2001. Depreciation and amortization expense represented 2.2% of the Company's total revenues during each six-month period.

#### Liquidity and Capital Resources

The Company's cash position on October 31, 2002 was \$295,580 compared to \$449,282 on April 30, 2002, a decrease of \$153,702. For the six months ended October 31, 2002 the Company's operating activities used \$147,388 in cash. The Company used its cash to repay equipment leases for \$1,929. The Company

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purchased equipment for its San Antonio Champions restaurant amounting to \$9,385.

For the six months ended October 31, 2001, the Company's operating activities used \$87,713 in cash. The Company purchased a nominal amount of equipment. The Company repaid \$4,890 in capital leases.

During the six months ended October 31, 2002 and 2001, the Company met its cash needs from its revenues and cash reserves and from cash flow from its San Antonio operation.

On October 31, 2002 the Company's working capital was a negative \$315,516 versus a negative \$294,573 on April 30, 2002. 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.

Stockholder's equity decreased to \$(38,624) as of October 31, 2002 compared to \$(5,005) as of April 30, 2002, as a result of the net loss for the six-month period.

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

### Subsequent Events

In November, 2002, the Board of Directors, in order to preserve the Company's cash reserves, voted to defer payment of \$63,750, the annual dividend on the Series A, 12% convertible, cumulative Preferred Stock, par value \$10, of which there were 53,125 shares outstanding as of October 31, 2002. The Board of Directors also voted to defer the annual meeting of security holders in order to preserve the Company's cash reserves.

### 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 as of October 31, 2002 and has not met the payment terms of the agreement. The Company believes that the agreement may not be fulfilled.

### Part II. Other Information

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

There were no matters submitted to a vote of Security Holders during the three month period ended October 31, 2002.

#### 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 thereunto duly authorized.

CHAMPIONS Sports, Inc.

\_\_\_/s/ James M. Martell\_\_\_

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James M. Martell  
President

\_\_\_/s/ James E. McCollam\_\_\_

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James E. McCollam  
Controller and Chief Accounting  
Officer

December 6, 2002