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CHAMPIONS SPORTS INC
Form 10QSB
December 14, 2001

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 October 31, 2001

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 organization) (I.R.S. Employer Identification No.)

Suite 214, 2420 Wilson Boulevard, 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 14, 2001 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	October 31, 2001	April 30, 2001
		-----	-----
		UNAUDITED	
Current assets			
Cash and cash equivalents		\$358,471	\$451,650
Accounts receivable - trade		300	1,326
Inventories		19,552	25,056
Prepaid expenses		14,539	17,411
		-----	-----

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Total current assets	392,862	495,443
Property and equipment		
Furniture and equipment	563,560	562,981
Leasehold improvements	584,772	584,772
	-----	-----
	1,148,332	1,147,753
Accumulated depreciation and amortization	(852,223)	(828,013)
	-----	-----
	296,109	319,740
Other assets		
Available for sale investments, at cost	50,000	50,000
Deposits	11,052	11,052
	-----	-----
Total assets	\$750,023	\$876,235
	=====	=====

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable	\$101,798	\$126,240
Dividend payable on preferred stock	447,692	447,692
Other accrued expenses	57,502	58,479
Deferred revenue	0	64,625
Current portion of deferred lease concession	4,363	4,363
Current portion of capital lease obligation	7,333	10,283
	-----	-----
Total current liabilities	618,688	711,682
Capital lease obligation, net of current portion	0	1,940
Deferred lease concession, net of current portion	11,193	11,556
	-----	-----
Total liabilities	629,881	725,178
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, 2001	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, 2001	8,514	8,514
Additional paid-in capital	5,337,599	5,337,599
Accumulated deficit	(5,757,223)	(5,726,308)
	-----	-----
Total stockholders' equity	120,142	151,057
Total liabilities and stockholders' equity	\$750,023	\$876,235
	=====	=====

See notes to consolidated financial statements

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CHAMPIONS SPORTS, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	Three months ended October 31,		Six months ended October 31,
	2001	2000	2001
	Unaudited		Unaudited
Revenue			
Food and beverage	\$423,208	\$450,308	\$953,617
Merchandise, memorabilia, and consulting fees	97,539	10,529	115,647
Interest income	2,451	7,377	5,880
Other income	4,888	1,967	7,882
	528,086	470,181	1,083,026
Costs and expenses			
Cost of food and beverage sales	109,523	116,910	247,449
Cost of merchandise and memorabilia	29,157	31,987	63,950
Restaurant payroll and related costs	151,593	161,938	337,412
Restaurant occupancy costs	58,674	53,801	123,138
Other restaurant costs	85,254	95,515	172,051
General and administrative	78,365	165,298	
Depreciation and amortization	12,104	12,104	24,209
Interest	457	948	1,035
	525,127	551,484	1,113,944
Operating income (loss) before income tax expense	2,959	(81,303)	(30,918)
Loss from discontinued operations	0	(78,409)	0
Loss on security held for sale	0	0	0
Income tax expense	0	0	0
Net income (loss)	2,959	(159,712)	(30,918)
Less preferred stock dividends (net of conversions)	(15,938)	(15,938)	(31,876)
Net income (loss) available to common stockholders	\$(12,979)	\$(175,650)	\$(62,794)
Basic earnings (loss) per share	\$(0.00)	\$(0.02)	\$(0.01)
Earnings (loss) per common share - assuming dilution	\$(0.00)	\$(0.02)	\$(0.01)

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CHAMPIONS SPORTS, INC. AND SUBSIDIARIES
 Consolidated Statements of Cash Flows
 Increase (Decrease) in Cash and Cash Equivalents
 For the six months ended October 31

	2001 ----	2000 ----
	Unaudited	
Cash flows from operating activities:		
Net loss	\$(30,918)	\$(168,525)
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	24,210	24,209
Loss on restricted securities held for sale	0	50,000
Changes in assets and liabilities:		
Accounts receivable	1,026	108,111
Inventories	5,504	(2,266)
Prepaid expenses	2,872	3,383
Deferred revenues	(64,625)	0
Accounts payable	(24,442)	(25,227)
Other accrued expenses	(977)	(5,812)
Deferred lease concessions	(363)	(2,544)
	-----	-----
Net cash provided (used) by operating activities	(87,713)	(18,671)
	-----	-----
Cash flows from investing activities:		
Purchases of property and equipment	(576)	(19,913)
Leasehold Improvements	0	(6,922)
	-----	-----
Net cash (used) by investing activities	(576)	(26,835)
Cash flows from financing activities:		
Principal payments on capital lease	(4,890)	(3,996)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(93,179)	(49,502)
Cash and cash equivalents at beginning of year	451,650	591,208
	-----	-----
Cash and cash equivalents at October 31	\$358,471	\$541,706
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$1,035	\$1,622
	=====	=====

See notes to consolidated financial statements

CHAMPIONS SPORTS, INC.

Notes to Consolidated Financial Statements

October 31, 2001

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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, 2001, the consolidated statements of operations for the three months and six months ended October 31, 2001 and October 31, 2000 and the consolidated statements of cash flows for the six months ended October 31, 2001 and October 31, 2000 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, 2001 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, 2001. The results of operations for the period ended October 31, 2001 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.

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

Results of Operation

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 or (\$0.01) per common share

For the six months ended October 31, 2000, the Company's net loss from operations was \$40,116 before preferred stock dividends of \$31,876 resulting in a net loss from continuing operations of \$71,992. The Company also realized a loss from discontinued operations of \$78,409 and a loss on a security held for sale of \$50,000. The net loss available for common shareholders for the six months ended October 31, 2000 was \$200,401.

The Company's assets decreased to \$750,023 at October 31, 2001 from \$876,235 at April 30, 2001 as a result of the net loss for the six month period.

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Revenues

The Company's total revenues were essentially the same for the six month period and increased 12.3% for the three month period ended October 31, 2001. The Company's total revenues were \$1,083,026 and \$1,083,547 for the six months ended October 31, 2001 and 2000. By component, food and beverage sales were nearly exactly the same for the comparable six month periods. Although sales at the San Antonio Champions dropped dramatically for a period of time after the tragic events of September 11, 2001, sales at this location have rebounded to levels comparable to the prior year. While the continued threat of terrorism looms over the country, there can be no assurance that sales will remain comparable to the prior year. For the three month period, food and beverage sales decreased 6.2% for the comparable period. The decrease in food and beverage sales for the three month period is a result of the events of September 11, 2001. Merchandise and memorabilia sales for the six months ended October 31, 2001 were \$115,647 compared to \$111,740 in the comparable period. The Company provided sports memorabilia to one Marriott Champions location during the six months ended October 31, 2001 and 2000. 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, 2001 and 2000.

Expenses

Cost of food and beverage remained relatively constant at 25.9% versus 25.5% of food and beverage sales of for the six months ended October 31, 2001 and 2000. Cost of merchandise and memorabilia sales was 55.3% and 58.3% of related sales for the six months ended October 31, 2001 and 2000. During the six months ended October 31, 2000, the Company wrote down memorabilia inventory of approximately \$23,000. Restaurant payroll and related costs also remained relatively constant at 35.4% and 35.2% of related sales for the six months ended October 31, 2001 and 2000. Restaurant occupancy costs increased to 12.9% of restaurant sales compared to 11.1% 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 18.0% of sales compared to 19.1% for the comparable period. General and administrative expense for the Company's corporate office was \$144,700 or 13.4% of the Company's total revenues for the six months ended October 31, 2001 compared to \$165,298 or 15.3% for the six months ended October 31, 2000. This decrease is attributed to the Company's effort to contain its costs and expenses in the uncertainty of the current economic climate. For the six months ended October 31, 2000, the Company expended \$78,409 for its effort to diversify into high-technology with the formation of a wholly owned subsidiary, Champions Tech Ventures. These diversification efforts proved to be unsuccessful and the Company ceased funding the operations of Champions Tech Ventures in March 2001 and divested its ownership in the subsidiary. Depreciation and amortization expense represented 2.2% of the Company's total revenues during each six-month period.

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Liquidity and Capital Resources

The Company's cash position on October 31, 2001 was \$358,471 compared to \$451,650 on April 30, 2001, a decrease of \$93,179. For the six months ended October 31, 2001, the Company's operating activities used \$87,713 in cash. The Company used its cash to repay equipment leases for \$4,890. The Company purchased a nominal amount of equipment.

For the six months ended October 31, 2000, the Company's operating activities used \$18,671 in cash. The Company purchased \$19,913 in property and equipment and \$6,922 in leasehold improvements. The Company repaid \$3,996 in capital leases. During the six months ended October 31, 2001 and 2000, the Company met its cash needs from its revenues and cash reserves and from cash flow from its San Antonio operation.

On October 31, 2001 the Company's working capital was a negative \$225,826 versus a negative 216,239 on April 30, 2001. The Company anticipates that the revenues generated from its operations and its cash reserves will be sufficient to meet its operating obligations for the next twelve months.

Stockholder's equity decreased to \$120,142 as of October 31, 2001 compared to \$151,057 as of April 30, 2001, as a result of the net loss for the six month period.

Subsequent Events

In November, 2001, 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, 2001. The Board of Directors also voted to defer the annual meeting of security holders in order to preserve the Company's cash reserves.

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, 2001.

Item 6. Exhibits and Reports on Form 8-K

None.

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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____
James M. Martell
President

___/s/ James E. McCollam__
James E. McCollam
Controller and Chief Accounting
Officer

December 14, 2001