

CHAMPIONS SPORTS INC  
Form 10QSB  
March 17, 2005

**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 January 31, 2005

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  
(State or other jurisdiction of  
organization)

52-1401755  
(I.R.S. Employer  
Identification No.)

2420 Wilson Blvd., 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  No

As of March 17, 2005 the Registrant had a total of 16,824,658 shares of common stock outstanding.

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**CHAMPIONS SPORTS, Inc.**  
**FORM 10-QSB**

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**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**JANUARY 31, 2005 (UNAUDITED)**

**ASSETS**

	<b>January 31, 2005 (UNAUDITED)</b>	<b>(Restated) April 30, 2004 (AUDITED)</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 52,608	\$ 120,116
Accounts receivable	524	22,713
Inventories	26,849	30,349
Prepaid expenses	7,351	6,750
<b>Total current assets</b>	<b>87,332</b>	<b>179,928</b>
Property and equipment, net	164,624	200,939
Deposits	11,052	11,052
<b>TOTAL ASSETS</b>	<b>\$ 263,008</b>	<b>\$ 391,919</b>

**LIABILITIES AND STOCKHOLDERS' (DEFICIT)**

**CURRENT LIABILITIES**

Accounts payable	\$ 68,216	\$ 92,758
Dividend payable on preferred stock	350,460	350,460
Other accrued expenses	260,444	146,116
Deferred lease commission	-	2,836
Deferred revenue	35,000	-
<b>Total current liabilities</b>	<b>714,120</b>	<b>592,170</b>

**COMMITMENTS AND CONTINGENCIES**

**STOCKHOLDERS' (DEFICIT)**

Preferred stock, \$10 par value; 56,075 shares authorized;		
32,450 shares issued and outstanding	324,500	324,500
Common stock, \$.001 par value; 50,000,000 shares authorized		
16,824,658 and 8,824,658 shares issued and outstanding	16,825	8,825
Additional paid-in capital	5,922,349	5,850,349
Subscription receivable	(80,000)	-
Accumulated deficit	(6,634,786)	(6,383,925)

<b>Total stockholders' (deficit)</b>		(451,112)		(200,251)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>	\$	263,008	\$	391,919

**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE NINE AND THREE MONTHS ENDED JANUARY 31, 2005 AND 2004 (UNAUDITED)**

	<b>NINE MONTHS ENDED JANUARY 31,</b>		<b>THREE MONTHS ENDED JANUARY 31,</b>	
	<b><u>2005</u></b>	<b><u>2004</u> (Restated)</b>	<b><u>2005</u></b>	<b><u>2004</u> (Restated)</b>
<b>OPERATING REVENUE</b>				
Food and beverage	\$ 1,265,368	\$ 1,442,782	\$ 413,658	\$ 456,445
Merchandise, memorabilia, and consulting fees	11,335	17,512	1,951	4,594
Other income	6,090	5,857	1,952	1,037
<b>Total operating revenue</b>	<b>1,282,793</b>	<b>1,466,151</b>	<b>417,561</b>	<b>462,076</b>
<b>COSTS AND OPERATING EXPENSES</b>				
Cost of food and beverage	405,507	423,066	128,876	148,113
Cost of merchandise and memorabilia	2,973	16,167	1,511	3,753
Restaurant payroll and related costs	451,382	486,985	145,041	154,008
Restaurant occupancy costs	187,005	184,767	62,149	55,245
Other restaurant costs	252,327	280,755	83,123	96,178
General and administrative	198,145	221,328	62,466	46,667
Depreciation and amortization	36,315	36,314	12,106	12,105
<b>Total costs and operating expenses</b>	<b>1,533,654</b>	<b>1,649,382</b>	<b>495,272</b>	<b>516,069</b>
<b>NET (LOSS) BEFORE PROVISION FOR INCOME TAXES</b>	<b>(250,861)</b>	<b>(183,231)</b>	<b>(77,711)</b>	<b>(53,993)</b>
Provision for income taxes	-	-	-	-
<b>NET LOSS</b>	<b>(250,861)</b>	<b>(183,231)</b>	<b>(77,711)</b>	<b>(53,993)</b>
Preferred stock dividends	-	(21,580)	-	-
<b>(LOSS) APPLICABLE TO COMMON STOCKHOLDERS</b>	<b>\$ (250,861)</b>	<b>\$ (204,811)</b>	<b>\$ (77,711)</b>	<b>\$ (53,993)</b>
<b>BASIC (LOSS) PER COMMON SHARE</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>
	12,071,035	8,690,375	16,824,658	8,729,750

**WEIGHTED AVERAGE  
SHARES OUTSTANDING**

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**CONDENSED CONSOLIDATED STATEMENTS CASH FLOWS  
FOR THE NINE MONTHS ENDED JANUARY 31, 2005 AND 2004 (UNAUDITED)**

	<b>2005</b>	<b>(Restated) 2004</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (250,861)	\$ (183,231)
<b>Adjustments to reconcile net loss to net cash (used in) operating activities:</b>		
Depreciation and amortization	36,315	36,314
<b>Changes in assets and liabilities</b>		
Accounts receivable	22,189	-
Inventories	3,500	(7,451)
Prepaid expenses	(601)	(1,388)
Accounts payable	(24,542)	(3,824)
Other accrued expenses	114,328	56,110
Deferred revenue	35,000	-
Deferred lease concessions	(2,836)	(3,997)
Total adjustments	183,353	75,764
<b>Net cash (used in) operating activities</b>	<b>(67,508)</b>	<b>(107,467)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	-	(2,931)
<b>Net cash (used in) investing activities</b>	<b>-</b>	<b>(2,931)</b>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(67,508)</b>	<b>(110,398)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD</b>	<b>120,116</b>	<b>195,101</b>
<b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>	<b>\$ 52,608</b>	<b>\$ 84,703</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest paid	\$ -	\$ -
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INFORMATION:</b>		
Exercise of common stock option by officer	\$ 80,000	\$ -





**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**JANUARY 31, 2005 AND 2004**

**NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION**

Champions Sports, Inc., (the "Company") a Delaware corporation, promoted a sports theme restaurant bar concept through Company owned and licensed operations. The Company sold the rights to the Champions brand to Marriott International, Inc. (Marriott) and became a licensee of Champions Sports Bar Restaurants. Substantially all memorabilia sales are to Marriott. At January 31, 2005 and 2004, respectively, the Company through its subsidiaries, owns and licenses, without a royalty fee, one Champions Sports Bar Restaurant in San Antonio, Texas.

The condensed consolidated unaudited interim financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements and notes are presented as permitted on Form 10-QSB and do not contain information included in the Company's annual consolidated statements and notes. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. The results for the nine months ended January 31, 2005 may not be indicative of the results for the entire year.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management, are necessary for fair presentation of the information contained herein.

The Company has restated its April 30, 2004 audited consolidated balance sheet and unaudited condensed consolidated statements of operations for the nine and three months ended January 31, 2004 and condensed consolidated statement of cash flows for the nine months ended January 31, 2004 to account for the accrual of management salaries in accordance with an employment agreement with an officer of the Company. The Company recognized an additional \$107,547 in its consolidated balance sheet as other accrued expenses, and an additional \$67,217 in general and administrative expenses in the nine months ended January 31, 2004 and \$17,884 for the three months ended January 31, 2004.

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany transactions have been eliminated in consolidation.

**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property and Equipment**

Property and equipment are stated at cost. Depreciation and amortization is computed from the date property is placed in service using the straight-line method over estimated useful lives as follows:

	Life
Furniture and equipment	5-15 years
Leasehold improvements	Remaining term of the lease

Depreciation and amortization expense was \$36,315 and \$36,314 for the nine months ended January 31, 2005 and 2004, respectively.

**Inventories**

Inventories consist of goods and supplies held for sale in the ordinary course of business and are stated at the lower of cost, determined on the first-in-first-out basis, or market. The components of inventories at January 31, 2005 were as follows:

Restaurant food and beverage	\$ 18,719
Promotional merchandise for sale to restaurant customers	8,130
	\$ 26,849

**Net (Loss) Per Share**

Historical net (loss) per common share is computed using the weighted average number of common shares outstanding. Diluted earnings per share (EPS) includes additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. Common stock equivalents were not included in the computation of diluted earnings per share when the Company reported a loss because to do so would be antidilutive for periods presented.

**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net (Loss) Per Share (Continued)**

The following is a reconciliation of the computation for basic and diluted EPS:

	<b>January 31, 2005</b>	<b>January 31, 2004</b>
Net loss	\$ (129,871)	\$ (137,594)
Weighted-average common shares Outstanding (Basic)	12,071,035	8,690,375
Weighted-average common stock Equivalents		
Stock options	-	8,000,000
Warrants	-	-
Weighted-average common shares Outstanding (Diluted)	12,071,035	16,690,375

Options and warrants outstanding to purchase stock were included in the chart above, however, not included in the computation of diluted EPS for January 31, 2005 and 2004 because inclusion would have been antidilutive.

**Cash and Cash Equivalents**

For purposes of the condensed consolidated statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less, unless restricted as to use, to be cash equivalents. At various times throughout the periods the Company had amounts on deposit at financial institutions in excess of federally insured limits.

**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Management believes that all accounts receivable as of January 31, 2005 are fully collectible. Therefore, no allowance for doubtful accounts is recorded.

**Income Taxes**

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 109 (the Statement), Accounting for Income Taxes. The Statement requires an asset and liability approach for financial accounting and reporting for income taxes, and the recognition of deferred tax assets and liabilities for the temporary differences between the financial reporting bases and tax bases of the Company's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled.

**Fair Value of Financial Instruments**

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, accounts payable, and accrued expenses, approximate fair values because of the short maturities of these instruments.

**Options for Common Stock**

The Company uses the intrinsic value method to account for options granted to executive officers, directors and other key employees for the purchase of common stock. No compensation expense is recognized on the grant date, since at that date, the option price equals or is higher than the market price of the underlying common stock. The Company discloses the pro forma effect of accounting for stock options under the fair value method. The Company uses the fair value method to account for options granted to advisors for the purchase of common stock.

**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Stock-Based Compensation**

Employee stock awards under the Company's compensation plans are accounted for in accordance with Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees", and related interpretations. The Company provides the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), and related interpretations. Stock-based awards to non-employees are accounted for under the provisions of SFAS 123 and has adopted the enhanced disclosure provisions of SFAS No. 148 "Accounting for Stock-Based Compensation- Transition and Disclosure, an amendment of SFAS No. 123".

The Company measures compensation expense for its employee stock-based compensation using the intrinsic-value method. Under the intrinsic-value method of accounting for stock-based compensation, when the exercise price of options granted to employees is less than the estimated fair value of the underlying stock on the date of grant, deferred compensation is recognized and is amortized to compensation expense over the applicable vesting period. In each of the periods presented, the vesting period was the period in which the options were granted.

The Company measures compensation expense for its non-employee stock-based compensation under the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. The fair value is measured at the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete. The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital.

**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recent Accounting Pronouncements**

On October 3, 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), that is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The FASB's new rules on asset impairment supersede SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and portions of Accounting Principles Board Opinion 30, "Reporting the Results of Operations." This Standard provides a single accounting model for long-lived assets to be disposed of and significantly changes the criteria that would have to be met to classify an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value and carrying amount. This Standard also requires expected future operating losses from discontinued operations to be displayed in the period (s) in which the losses are incurred, rather than as of the measurement date as presently required. The adoption of SFAS No. 144 did not have a significant impact on the Company's results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. This statement rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that statement, SFAS No. 44, Accounting for Intangible Assets of Motor Carriers, and SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This statement amends SFAS No. 13, Accounting for Leases, to eliminate inconsistencies between the required accounting for sales-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sales-leaseback transactions.

Also, this statement amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. Provisions of SFAS No. 145 related to the rescissions of SFAS No. 4 were effective for the Company on November 1, 2002 and provisions affecting SFAS No. 13 were effective for transactions occurring after May 15, 2002. The adoption of SFAS No. 145 did not have a significant impact on the Company's results of operations or financial position.

**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recent Accounting Pronouncements (Continued)**

In June 2003, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This statement covers restructuring type activities beginning with plans initiated after December 31, 2002. Activities covered by this standard that are entered into after that date will be recorded in accordance with provisions of SFAS No. 146. The adoption of SFAS No. 146 did not have a significant impact on the Company's results of operations or financial position.

In December 2002, the FASB issued Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123" ("SFAS 148"). SFAS 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends Accounting Principles Board ("APB") Opinion No. 28, "Interim Financial Reporting", to require disclosure about those effects in interim financial information. SFAS 148 is effective for financial statements for fiscal years ending after December 15, 2002. The Company will continue to account for stock-based employee compensation using the intrinsic value method of APB Opinion No. 25, "Accounting for Stock Issued to Employees," but has adopted the enhanced disclosure requirements of SFAS 148.

Statement should be applied prospectively. The adoption of this statement did not have a significant impact on the Company's results of operations or financial position.

**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Recent Accounting Pronouncements (Continued)**

In May 2003, the FASB issued SFAS Statement No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities, if applicable. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. The adoption of this statement did not have a significant impact on the Company's results of operations or financial position.

In November 2002, the FASB issued Interpretation No. 45 ("FIN 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires a company, at the time it issues a guarantee, to recognize an initial liability for the fair value of obligations assumed under the guarantees and elaborates on existing disclosure requirements related to guarantees and warranties. The recognition requirements are effective for guarantees issued or modified after December 31, 2002 for initial recognition and initial measurement provisions. The adoption of FIN 45 did not have a significant impact on the Company's results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. The adoption of FIN 46 did not have a significant impact on the Company's results of operations or financial position.



**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassifications**

Certain amounts for the nine months ended January 31, 2004 have reclassified to conform to the presentation of the January 31, 2005 amounts. The reclassifications have no effect on net loss for the nine months ended January 31, 2004.

**NOTE 3- RELATED PARTY PAYABLE**

In October 2004, the Company received an advance from an officer of the Company for certain working capital needs. These funds were repaid in November 2004.

**NOTE 4- COMMITMENTS AND CONTINGENCIES**

*Operating leases*

The Company leases, as tenant, restaurant space under an operating lease which expires June 30, 2005. The lease escalates for increases in the landlord's expenses or for increases in the Consumer Price Index, and requires additional rentals based on a percentage of restaurant sales over a defined amount. The lease grants the Company certain concessions, which are amortized to lease expense over the term of the lease.

Rental expense charged to expense during the nine months ended January 31, 2005 and 2004 was \$151,649 and \$180,659, respectively. Future minimum payments under the noncancellable restaurant lease as of January 31, 2005 are as follows:

2005	\$ 59,545
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**NOTE 5- CAPITAL LEASE OBLIGATION**

The Company leased equipment under a capital lease. The equipment cost of \$32,286 was amortized over its useful life and such amortization was included in the depreciation and amortization expense for 2003. During 2003, the lease expired and the Company purchased the equipment.

**CHAMPIONS SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 6- MARRIOTT LICENSE**

The Company is an exclusive supplier of sports memorabilia and a consultant to all new Champions Sports Bars located in Marriott and Renaissance Hotels worldwide. Marriott terminated the exclusive consulting services and sports memorabilia supply agreement dated November 7, 1997 in February 2005.

In November 2004, the Company received a down payment of \$35,000 from Marriott, for the memorabilia and consulting fee for the new Champions Sports Bar Restaurant that is projected to open in the Marriott hotel in Louisville, Kentucky in March 2005.

**NOTE 7- STOCKHOLDERS' DEFICIT**

**Common Stock**

The Company has 50,000,000 shares authorized and 16,824,658 shares issued and outstanding at January 31, 2005.

On October 11, 2004, an officer of the Company exercised his stock option to acquire 8,000,000 shares of restricted common stock at \$.01 per share.

In accordance with Emerging Issues Task Force (EITF) 95-16, "Accounting for Stock Compensation Arrangements with Employer Loan Features under APB Opinion No. 25," this option was exercised with a note receivable from the officer. The note is secured along with any related interest by the stock, and the note is prepayable and due on demand. It does not constitute a new grant of an option under EITF 95-16, because the option agreement did not contain a clause that permitted the officer to exercise the option with a nonrecourse note, and the exercise with a note does not extend the original option period. Despite the Company's lease expiring in June 2005, the Company believes that the receivable is fully collectible, due to the officer's pursuit of a business combination.

There were no other issuances of common stock during the nine months ended January 31, 2005 and 2004, respectively.

**Preferred Stock**

The Company has 56,075 shares of preferred stock authorized and 32,450 shares issued and outstanding at January 31, 2005.

Effective November 2003, pursuant to a board resolution, the Company cancelled its payment and/or accruing of preferred stock dividends. The Company's Board of Director's decided to only pay/accrue the preferred stock dividend upon a successful merger or business combination. The Series A preferred stock would be equal to 12 percent per annum, and the dividends are to be accrued on the Company's book if not paid. The dividend may be paid in cash or common stock of the Company at the Company's discretion. The number of shares comprising the dividend paid in common stock shall be determined by dividing \$1.20 by the closing bid price for the common stock on the payment date. The Series A preferred stock is preferred in liquidation or dissolution up to the amount of their par value (\$10 per share). The Series A preferred stock in 2004 converted into 15 shares of the Company's common stock. There were no conversions in 2003.



**CHAMPION SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 7- STOCKHOLDERS' DEFICIT (CONTINUED)**

**Preferred Stock (Continued)**

For each of the nine fiscal years ended April 30, 2004, the Company deferred payment of the annual dividend on the Series A preferred stock. For the quarters ended January 31, 2005 and 2004, the deferral was \$0 and \$15,938, respectively. Accrued preferred stock dividends at January 31, 2005 and 2004 aggregated \$350,460 (\$10.83 per preferred share). The remaining accrued dividends are anticipated to be paid in cash or common stock upon a successful merger or other business combination.

**Common Stock Options**

The Company in 1993 adopted a stock option plan, which expired on August 2, 2002. No options were exercised under the plan. All options granted by the Company were granted pursuant to board resolutions and not under the stock option plan.

**NOTE 8- GOING CONCERN**

As shown in the accompanying condensed consolidated financial statements, the Company has sustained net operating losses for the nine months ended January 31, 2005 and 2004, and has sustained large accumulated deficits. In addition, the Company is in search of acquiring a business, or finding a suitable merger candidate.

Management has restructured the Company and is continuing to search for a more profitable company to acquire.

The Company's future success is dependent upon its ability to achieve profitable operations and generate cash from operating activities, and upon additional financing. There is no guarantee that the Company will be able to raise enough capital or generate revenues to sustain its operations.

The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**NOTE 9- PROVISION FOR INCOME TAXES**

Deferred income taxes will be determined using the liability method for the temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities. Deferred income taxes will be measured based on the tax rates expected to be in effect when the temporary differences are included in the Company's consolidated tax return. Deferred tax assets and liabilities are recognized based on anticipated future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases.

**CHAMPION SPORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**JANUARY 31, 2005 AND 2004**

**NOTE 9- PROVISION FOR INCOME TAXES (CONTINUED)**

At January 31, 2005, deferred tax assets consist of the following:

Net operating loss carryforwards	\$ 1,396,000
Less: valuation allowance	(1,396,000)
	\$ -0-

At January 31, 2005, the Company had federal net operating loss carryforwards in the approximate amounts of \$4,105,000 available to offset future taxable income. The Company established valuation allowances equal to the full amount of the deferred tax assets due to the uncertainty of the utilization of the operating losses in future periods.

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**

THERE IS SUBSTANTIAL DOUBT ABOUT THE COMPANY'S ABILITY TO CONTINUE AS A GOING CONCERN DUE TO RECURRING LOSSES AND WORKING CAPITAL SHORTAGES, WHICH MEANS THAT THE COMPANY MAY NOT BE ABLE TO CONTINUE OPERATIONS UNLESS IT OBTAINS ADDITIONAL FUNDING. 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 TO CONTINUE OPERATIONS ON TERMS SATISFACTORY TO THE COMPANY

Certain amounts for the nine months ended January 31, 2004 have been reclassified to conform to the presentation of the January 31, 2005 amounts. The reclassifications have no effect on net loss for the nine months ended January 31, 2004.

### Results of Operation

For the nine month period ended January 31, 2005, the Company's net loss applicable to common shareholders was \$250,861 or (\$0.02) per common share as compared to a net loss of \$204,811 or (\$0.02) per common share for the nine month period ended January 31, 2004. For the nine months ended January 31, 2005 and January 31, 2004, the net loss was from the Company's ongoing operations.

The Company's assets decreased to \$263,008 at January 31, 2005 from \$391,919 at April 30, 2004. For the three months ended January 31, 2005 the Company's net loss from its ongoing operations was \$77,711 compared to a net operating loss of \$53,993 during the three months ended January 31, 2004.

### Revenues

The Company's total revenues decreased 12.5% to \$1,282,793 for the nine months ended January 31, 2005 versus \$1,466,151 for the nine-month period ended January 31, 2004. By component, food and beverage sales decreased 12.3% from the previous year for the nine months and 9.4% for the three months period from the previous year. The decrease in food and beverage sales is attributed to a decrease in conventions and tourism in the San Antonio area. Merchandise and memorabilia sales for the nine months ended January 31, 2005 decreased to \$11,335 compared to \$17,512. The Company did not provide any memorabilia and consulting services to Marriott International during the nine month period ended January 31, 2005 and 2004, and the Company owned restaurant in San Antonio ceased selling tobacco products to comply with a new enacted city ordinance. For the three months ended January 31, 2005 and 2004, merchandise and memorabilia sales were less than 1% of the Company's total revenues. For the nine months ended January 31, 2005 and 2004, other income was less than 1% of the Company's total revenues.

### Expenses

Cost of food and beverage increased to 32.0% of related sales compared for the nine months ended January 31, 2005 compared to 29.3% related sales for the comparable period. This variance is attributed to an increase in wholesale prices, especially in beef, poultry and produce. While the Company implemented retail price increases during FY 2004 and 2005, in order to remain competitive, they were not sufficient to absorb all of the wholesale price increases. Cost of merchandise and memorabilia sales for the nine months ended January 31, 2005 was \$2,973 compared to \$16,167 in the preceding year. Restaurant payroll and related costs were 35.7% of related food and beverage sales contrasted to 33.8% for the nine months ended January 31, 2004. The higher percentage to related sales is attributed to the decrease in food and beverage sales, as the dollar amount decreased from the comparable period was approximately \$35,000. Restaurant occupancy costs were \$187,005 for the nine months and \$62,149 for the three months ended January 31, 2005 compared to \$184,767 for the nine months and \$55,245 for the three month comparable period in 2004. The increase in occupancy costs it attributed to an increase in real estate taxes and common area charges passed on by the landlord. Other restaurant costs were 19.9% of food and beverage sales for the nine months and 20.1% of food and beverage sales for the three months ended January 31, 2005 compared to 19.5 of food and beverage sales for the comparable nine month and 21.1% for the three months in 2003. General and administrative expense was \$198,145 for the nine months ended January 31, 2005 compared to \$221,328 for the nine months ended January 31, 2004, as restated. The Company has restated its April 30, 2004 audited consolidated balance sheet and unaudited condensed consolidated statements of operations for the nine and three months ended January 31, 2004 and condensed consolidated statement of cash flows for the nine months ended January 31, 2004 to account for the accrual of management salaries in accordance with an employment agreement with an officer of the Company. The Company recognized an additional \$107,547 in its consolidated balance sheet as other accrued expenses, and an additional \$67,217 in general and administrative expenses in the nine months ended January 31, 2004 and \$17,884 for the three months ended January 31, 2004.

Depreciation and amortization expense accounted for approximately 2.5 % of the Company's total revenues during the nine months ended January 31, 2005 and 2004 and during the three months ended January 31, 2005 and 2004.

### Liquidity and Capital Resources

The Company's cash position on January 31, 2005 decreased by \$67,508 to \$52,608 from \$120,116 on April 30, 2004, as a result of its ongoing losses. For the nine months ended January 31, 2005, the Company's ongoing operations used cash totaling \$67,508. For the comparable period ending January 31, 2004, the Company's ongoing operations used cash of \$110,398. For the nine months ended January 31, 2004, the Company purchased equipment for its San Antonio location for \$2,931.

In October 2004, an officer of the Company exercised an option to acquire 8,000,000 restricted common shares at \$0.01 per share by issuing to the Company a note in the amount of \$80,000. The note is secured along with any related interest by the stock issued, and the note is prepayable and due on or before October 2006.

The Company met its cash needs during the nine months ended January 31, 2005 and 2004 from its cash reserves and from cash flow from its San Antonio, Texas operation.

The Company is facing liquidity problems and is uncertain that it will be able to continue operations with out an infusion of cash. 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 to improve its liquidity.

The Company's working capital was a negative \$626,788 on January 31, 2005 and negative \$412,242 on April 30, 2004. The Company's working capital when compared to other publicly traded companies in the restaurant industry is unfavorable. This is primarily attributed to accrued dividends on the preferred shares and to the fact that other companies in the industry have multiple locations with a broader sales base and generate greater cash flows to offset corporate overhead expense. In the Company's current situation, the one operating unit has generated cash to cover its operating expense, but has not produced sufficient cash to offset the corporate overhead costs



Stockholder's equity was a negative \$451,112 as of January 31, 2005 compared to a negative \$200,251 as of April 30, 2004. The decrease in stockholder's equity is due to the loss for the nine months ended January 31, 2005.

**Other**

The Company's independent auditor, for the year ending April 30, 2004, has expressed substantial doubt the Company can continue as a going concern. The Company is still facing grave liquidity and cash problems as of January 31, 2005 and through the date of the filing of this 10-QSB The Company has reduced its general and administrative expense to conserve cash. 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 on terms satisfactory to the Company or to improve its liquidity. If the situation does not improve, the Company might be forced to discontinue its operations. The Company's Board of Directors voted to defer the annual meeting of shareholders to preserve to Company's cash position.

The Company was notified in February 2005, that it would no longer be the exclusive supplier of sports memorabilia and consulting services to Marriott International, Inc. effective May 28, 2005. The Company may continue to receive additional consulting work, no longer on an exclusive basis, from Marriott in the future.

The restaurant lease for the Company's CHAMPIONS location in San Antonio Texas will expire on June 30, 2005 and the Company's restaurant operations will cease at that point. The Company does not have the resources to open and operate in another location. It is not the intention of the Company to cease operations if its restaurant in San Antonio stops operating. It is the intention of the Company to continue operations until such time as Champions finds a business opportunity and merges with another company. We are continuing to actively look at various business opportunities in order to continue operations.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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 generally uses words such as "believe," "may," "could," "will," "intend," "expect," "anticipate," "plan," and similar expressions to identify forward-looking statements. One should not place undue reliance on these forward-looking statements. The Company's actual results could differ materially from those anticipated in the forward-looking statements for many unforeseen factors, which may include, but are not limited to, changes in general economic conditions, the ongoing threat of terrorism, customer acceptance of products offered, other general competitive factors, ability to have access to financing sources on reasonable terms and other risks that are described in this document. Although the Company believes the expectations reflected in the forward-looking statements are reasonable, they relate only to events as of the date on which the statements are made, and the Company's future results, levels of activity, performance or achievements may not meet these expectations. The Company does not intend to update any of the forward-looking statements after the date of this document to conform these statements to actual results or to changes in the Company's expectations, except as required by law.

**Item 4. CONTROLS AND PROCEDURES**

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in Company's reports under the Securities Exchange Act of 1934, such as this Form 10Q-SB, is reported in accordance with the Securities and Exchange Commission's rules. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure.

Within the 90 days prior to the date of this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to the Securities Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be in the Company's periodic SEC filings. There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Certifications of the Chief Executive Officer and Chief Financial Officer regarding, among other items, disclosure controls and procedures are included immediately after the signature section of this Form 10Q-SB.

**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**

Form 8 K was file on February 8, 2005 regarding the termination by Marriott of the exclusive Consulting Services and Sports Memorabilia Supply Agreement, dated November 7, 1997, effective May 28, 2005.

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 Martell  
James Martell  
Chairman, President and Chief Executive  
Officer

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

March 17, 2005

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

Section 302 Certification

I, JAMES MARTELL, certify that:

- (1) I have reviewed this quarterly report on Form 10Q-SB of CHAMPIONS SPORTS, INC., a Delaware corporation (the "registrant");
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17 2005

By:/s/ JAMES MARTELL  
JAMES MARTELL  
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

Section 302 Certification

I, JAMES E. MCCOLLAM, certify that:

- (1) I have reviewed this quarterly report on Form 10Q-SB of CHAMPIONS SPORTS, INC., a Delaware corporation (the "registrant");
- (2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report.
- (3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- (4) The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and



(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

(6) The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2005

By: /s/ JAMES E. McCOLLAM  
JAMES E. McCOLLAM  
Chief Financial Officer

The following certification will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that section, nor will the certification be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, James Martell, President and Chief Executive Officer of Champions Sports, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The accompanying Quarterly Report on Form 10-QSB of the Company for the fiscal quarter ended January 31, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 17, 2005

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

A signed original of the above certification has been provided to Champions Sports, Inc. and will be retained by Champions Sports, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

The following certification will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that section, nor will the certification be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the registrant specifically incorporates it by reference.

CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, James E. McCollam, Treasurer, Secretary and Principal Accounting Officer of Champions Sports, Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The accompanying Quarterly Report on Form 10-QSB of the Company for the fiscal quarter ended January 31, 2005 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 17, 2005

/s/ James E. McCollam  
James E. McCollam  
Treasurer, Secretary and  
Principal Accounting Officer

A signed original of the above certification has been provided to Champions Sports, Inc. Inc. and will be retained by Champions Sports, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

