

CHAMPIONS SPORTS INC
Form 10QSB
September 15, 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 July 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.)

2200 Wilson Blvd., Suite 102-316, Arlington VA
(Address of principal executive offices)

22201
(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 September 13, 2005 the Registrant had a total of 16,824,658 shares of common stock outstanding.

CHAMPIONS SPORTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2005 AND 2004

CHAMPIONS SPORTS, Inc.

FORM 10-QSB

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CHAMPIONS SPORTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
July 31, 2005 (Unaudited) and April 30, 2005

ASSETS

| | July 31, <u>2005</u> | April 30, <u>2005</u> |
|-----------------------------|-------------------------|--------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | 67,615 | 84,513 |
| Inventories | - | 18,459 |
| Total current assets | 67,615 | 102,972 |
| Property and equipment, net | | 152,520 |
| Deposits | | 11,052 |
| TOTAL ASSETS | 67,615 | 266,544 |

LIABILITIES AND STOCKHOLDERS' (DEFICIT)

| | | |
|-------------------------------------|---------|---------|
| CURRENT LIABILITIES | | |
| Accounts payable | 86,617 | 69,470 |
| Dividend payable on preferred stock | 350,460 | 350,460 |
| Other accrued expenses | 233,183 | 213,409 |
| Total current liabilities | 670,260 | 633,339 |

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 | 16,825 |
| Additional paid-in capital | 5,922,349 | 5,922,349 |
| Accumulated deficit | (6,866,319) | (6,630,469) |
| Total stockholders' (deficit) | (602,645) | (366,795) |
| TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) | 67,615 | 266,544 |

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

| | <u>2005</u> | <u>(Restated)</u> <u>2004</u> |
|---|--------------|----------------------------------|
| OPERATING REVENUE | | |
| Sales | \$ - | - |
| Total operating revenue | - | - |
| COSTS AND OPERATING EXPENSES | | |
| General and administrative | 69,999 | 58,762 |
| Total costs and operating expenses | 69,999 | 58,762 |
| LOSS BEFORE OTHER (EXPENSE) | (69,999) | (58,762) |
| DISCONTINUED OPERATIONS | | |
| Loss from discontinued operations (net of taxes) | (23,331) | (10,524) |
| Loss on disposal of assets | (142,520) | - |
| Total discontinued operations | (165,851) | (10,524) |
| NET (LOSS) BEFORE PROVISION FOR INCOME TAXES | (235,850) | (69,286) |
| Provision for income taxes | - | - |
| NET LOSS APPLICABLE TO COMMON STOCKHOLDERS | \$ (235,850) | \$ (69,286) |
| BASIC LOSS PER COMMON SHARE | \$ (0.01) | \$ (0.01) |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 16,824,658 | 8,824,658 |

CHAMPIONS SPORTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE THREE MONTHS ENDED JULY 31, 2005 AND 2004 (UNAUDITED)

| | 2005 | (Restated) 2004 |
|---|-----------------|--------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Continuing Operations | | |
| Net loss | \$ (69,999) | \$ (58,762) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Changes in assets and liabilities | | |
| Accounts payable | 17,147 | (510) |
| Other accrued expenses | 19,774 | 46,193 |
| Total adjustments | 36,921 | 45,683 |
| Net cash (used in) operating activities - operations | (33,078) | (13,079) |
| Discontinued Operations: | | |
| Loss from discontinued operations | (165,851) | (10,524) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | - | 12,105 |
| Loss on disposal of assets | 142,520 | - |
| Changes in assets and liabilities | | |
| Accounts receivable | - | 22,713 |
| Inventories | 18,459 | 1,026 |
| Prepaid expenses | - | (4,136) |
| Deposits | 11,052 | - |
| Total adjustments | 172,031 | 31,708 |
| Net cash provided by operating activities - discontinued operations | 6,180 | 21,184 |
| Net cash provided by (used in) operating activities - continuing and discontinued operations | (26,898) | 8,105 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Discontinued Operations: | | |
| Proceeds from sale of assets | 10,000 | - |
| Net cash provided by investing activities | 10,000 | - |

CHAMPIONS SPORTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE THREE MONTHS ENDED JULY 31, 2005 AND 2004 (UNAUDITED) Con't

**CASH FLOWS FROM FINANCING
ACTIVITIES**

Discontinued Operations:

| | | |
|--|---|---------|
| Principal payments on capital lease | - | (1,090) |
| Net cash (used in) financing activities | - | (1,090) |

**NET INCREASE (DECREASE) IN
CASH AND CASH EQUIVALENTS**

| | |
|----------|-------|
| (16,898) | 7,015 |
|----------|-------|

**CASH AND CASH EQUIVALENTS -
BEGINNING OF PERIOD**

| | |
|--------|---------|
| 84,513 | 120,116 |
|--------|---------|

**CASH AND CASH EQUIVALENTS - END OF
PERIOD**

| | |
|-----------|------------|
| \$ 67,615 | \$ 127,131 |
|-----------|------------|

**SUPPLEMENTAL DISCLOSURE OF CASH
FLOW INFORMATION:**

| | | |
|----------------------------------|------|------|
| Cash paid during the period for: | | |
| Interest paid | \$ - | \$ - |

CHAMPIONS SPORTS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JULY 31, 2005 AND 2004 (UNAUDITED)

NOTE 1- ORGANIZATION AND BASIS OF PRESENTATION

Champions Sports, Inc., (the "Company") a Delaware corporation, promoted a sport 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. On June 23, 2005, the Company ceased operations for its' only sports bar located in San Antonio, Texas. Fixed assets with a net book value of \$152,520 were sold for \$10,000 and inventory consisting of primarily restaurant food and beverage was sold for \$3,200.

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 three months ended July 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 amended its previously issued condensed consolidated financial statements for the three months ended July 31, 2004. The Company has amended these condensed consolidated financial statements to recognize an additional \$40,330 in officer's compensation and related payroll tax expense for the three months ended July 31, 2004. This transaction resulted in an increase in net loss applicable to common shares of \$40,330 for the three months ended July 31, 2004 to a net loss of \$69,286 as restated, and an increase in the accumulated deficit to \$6,453,211. Additionally, the Company has reclassified its financial statements to take effect for the disposal of its only operating business.

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

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.

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 \$0 and \$12,105 for the three months ended July 31, 2005 and 2004, respectively.

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

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Net (Loss) Per Share (continued)

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

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

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

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of the condensed consolidated statements of cash flow, 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.

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)
JULY 31, 2005 AND 2004 (UNAUDITED)

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)
JULY 31, 2005 AND 2004 (UNAUDITED)

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements

Share Based Payments

In December 2004, the FASB issued Financial Accounting Standards No. 123 (revised 2004) (FAS 123R), "Share-Based Payment," FAS 123R replaces FAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." FAS 123R requires compensation expense, measured as the fair value at the grant date, related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award. The Company intends to adopt FAS 123R using the "modified prospective" transition method as defined in FAS 123R. Under the modified prospective method, companies are required to 1) record compensation cost prospectively for the unvested portion, as of the date of adoption, of previously issued and outstanding awards over the remaining vesting period of such awards. FAS 123R is effective January 1, 2006. The Company is evaluating the impact of FAS 123R on its' results and financial position.

Inventory Costs

In November 2004, the FASB issued Financial Accounting Standards No. 151 (FAS 151), "Inventory Costs - an amendment of ARB No. 43, Chapter 4". FAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. In addition, FAS 151 requires companies to base the allocation of fixed production overhead to the costs of conversion on the normal capacity of production facilities. FAS 151 is effective for the Company in 2006. The Company does not expect FAS 151 to have a material impact on its results or financial statements.

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

NOTE 2- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

Exchange of Non-Monetary Assets

On December 16, 2004, FASB issued Statement of Financial Accounting Standards No. 153, "Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29, Accounting for Non-monetary Transactions" ("SFAS 153"). This statement amends APB Opinion 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges of non-monetary assets that do not have commercial substance. Under SFAS 153, if a non-monetary exchange of similar productive assets meets a commercial-substance criterion and fair value is determinable, the transaction must be accounted for at fair value resulting in recognition of any gain or loss. SFAS 153 is effective for non-monetary transactions in fiscal periods that begin after June 15, 2005. The Company does not anticipate that the implementation of this standard will have a material impact on its financial position, results of operations or cash flows.

Reclassifications

The loss from discontinued operations for the three months ended July 31, 2004 was reclassified to reflect the sale of the Company's only operating business activity in the condensed consolidated statements of operations in accordance with the provisions of SFAS 144. The reclassification had no effect on net loss for the three-month period ended July 31, 2004.

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

NOTE 3- COMMITMENTS AND CONTINGENCIES

Operating leases

The Company leases, as tenant, restaurant space under an operating lease, which expired June 30, 2005 and was not renewed. The lease escalated for increases in the landlord's expenses for increases in the Consumer Price Index, and required additional rentals based on a percentage of restaurant sales over a defined amount. The lease granted the Company certain concessions, which were amortized to lease expense over the term of the lease.

Rental expense during the three months ended July 31, 2005 and 2004 was \$43,132 and \$50,121, respectively.

NOTE 4- MARRIOTT LICENSE

The Company was an exclusive supplier of sports memorabilia and a consultant to all new Champions Sports Bars located in Marriott and Renaissance Hotels worldwide. This agreement was terminated by Marriott effective May 28, 2005.

NOTE 5- ACCRUED EXPENSES

This account represents accrued officer's payroll and related payroll taxes.

NOTE 6- STOCKHOLDERS' DEFICIT

Common Stock

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

There were no issuances of common stock during the three months ended July 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 July 31, 2005.

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

NOTE 6- STOCKHOLDERS' DEFICIT (Continued)

Preferred Stock (Continued)

The Series A preferred stock requires a dividend of 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 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.

For each of the ten fiscal years ended April 30, 2005, the Company deferred payment of the annual dividend on the Series A preferred stock. For the quarters ended July 31, 2005 and 2004, the deferral was \$0, respectively. Preferred stock dividends in arrears at July 31, 2005 aggregated \$350,460 (\$10.83 per preferred share). The remaining accrued dividends are anticipated to be paid in cash or common stock upon 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 7- GOING CONCERN

As shown in the accompanying condensed consolidated financial statements, the Company has sustained net operating losses for the years ended April 30, 2005 and 2004 and for the three months ended July 31, 2005, and has sustained large accumulated deficits that raise substantial doubt about its ability to continue as a going concern. In addition, the Company is in search of acquiring a business, or finding a suitable merger candidate

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

NOTE 7- GOING CONCERN (Continued)

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 8- 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.

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

| | |
|---------------------------|--------------------|
| Deferred tax asset | \$ 2,403,212 |
| Less: valuation allowance | <u>(2,403,212)</u> |
| Net deferred tax asset | <u>\$ -0 -</u> |

At July 31, 2005, the Company had federal net operating loss carryforwards in the approximate amounts of \$4,410,850 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.

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

NOTE 9- RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company has amended its previously issued condensed consolidated financial statements for the three months ended July 31, 2004. The Company has amended these condensed consolidated financial statements to recognize an additional \$40,330 in officer's compensation and related payroll tax expense for the three months ended July 31, 2004. This transaction resulted in an increase in net loss applicable to common shares of \$40,330 for the three months ended July 31, 2004 to a net loss of \$69,286 as restated, and an increase in the accumulated deficit to \$6,453,211.

NOTE 10- DISPOSAL OF BUSINESS

On June 23, 2005, the Company ceased operations for its' only sports bar located in San Antonio, Texas. Fixed assets with a net book value of \$152,520 were sold for \$10,000 and inventory consisting of primarily restaurant food and beverage was sold for \$3,200. The Company's condensed consolidated financial statements have been reclassified to reflect this sale as discontinued operations, for all periods presented. Summarized operating results of discontinued operations are as follows:

| | July 31, 2005 | July 31, 2004 |
|--------------------------|---------------------|-------------------|
| Revenues | <u>\$ 273,622</u> | <u>\$457,092</u> |
| Loss before income taxes | <u>\$ (235,850)</u> | <u>\$(69,286)</u> |
| Provision for taxes | <u>\$ -</u> | <u>\$ -</u> |
| Net (loss) | <u>\$ (235,850)</u> | <u>\$(69,286)</u> |
| Net income per share | <u>\$ (0.01)</u> | <u>\$ (0.01)</u> |
| Diluted income per share | <u>\$ (0.01)</u> | <u>\$ (0.01)</u> |

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

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. The Company's independent auditor, for the year ending April 30, 2005, has expressed substantial doubt that the Company can continue as a going concern due to recurring losses and working capital shortages and that there is no guarantee that the Company will be able to raise enough capital or generate revenues to sustain its operations. The Company is continuing to face grave liquidity and cash problems as of date of the filing of this 10-QSB. The Company's Champions sports bar restaurant in San Antonio, Texas which provided almost 100 percent of its revenues, ceased its restaurant operations in June of 2005 after its 16 year old lease expired. The Company does not have the resources to open and operate a restaurant in another location. It is the intention of the Company to continue operations until such time as Champions finds a business opportunity and merges with another company or raises additional financing, although there is no assurance that this can be done on terms satisfactory to the Company. The Company is continuing to actively look at various business opportunities in order to continue operations. If the Company's liquidity situation does not improve, the Company might have to discontinue its business as a going concern.

Results of Operation

For the three months ended July, 31, 2005, the Company's net loss was \$235,850. The Company's total assets decreased by \$ 198,929 to \$67,615 from \$266,544 at April 30, 2005.

For the three months ended July 31, 2004, the Company's net loss was \$69,286. The Company's total assets decreased by \$125,375 to \$266,544 from \$391,919 at April30, 2004.

Revenues

The Company's total revenues were \$0.00 for the three months ended July 31, 2005 and for the three-month period ended July 31, 2004, as reclassified. The Company ceased operations at the San Antonio Champions Sports Restaurant location on June 23, 2005. The lease on this location expired on June 30, 2005 and the Company vacated the premise on that date. The San Antonio location had provided 99% of the Company's revenues. The Company's condensed consolidated financial statements have been reclassified to reflect this sale as discontinued operations, for all periods presented. Summarized operating results of discontinued operations are as follows:

| | July 31, 2005 | July 31, 2004 |
|--------------------------|---------------------|-------------------|
| Revenues | <u>\$ 273,622</u> | <u>\$457,092</u> |
| Loss before income taxes | <u>\$ (235,850)</u> | <u>\$(69,286)</u> |
| Provision for taxes | <u>\$ -</u> | <u>\$ -</u> |
| Net (loss) | <u>\$ (235,850)</u> | <u>\$(69,286)</u> |

Expenses

General and administrative expense for the Company's corporate office was \$69,999 for the three months ended July 31, 2005 compared to \$58,762 for the three months ended July 31, 2004.

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

Liquidity and Capital Resources

The Company's cash position as of July 31, 2005 was \$67,615 compared to \$84,513 on April 30, 2005. For the three month period, the Company's operations, continuing and discontinued, used \$26,898 in cash. The Company met its liquidity needs from its cash reserves.

The Company's working capital was a negative \$602,645 on July 31 2005 and a negative \$366,795 on April 30, 2005. The Company's working capital is very unfavorable when compared to other public companies.

Other

The Company is facing liquidity problems and is uncertain that it will be able to continue operations without an infusion of cash. The Company's liquidity problems have been further exasperated by the closing to the Company's San Antonio Champions Sports Bar Restaurant. 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 to continue operations on terms satisfactory to the Company.

Furthermore, The Company's independent auditor has expressed substantial doubt that the Company can continue as a going concern.

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, 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.

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

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

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 14, 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: September 14, 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: September 14, 2005

By: /s/ JAMES E. McCOLLAM

JAMES E. McCOLLAM
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Champions Sports, Inc. (the "Company") on Form 10-QSB for the three months ended July 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 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 operation of the Company.

Dated: September 14, 2005

By: /s/ James M. Martell

James M. Martell, Chief Executive Officer

Dated: September 14, 2005

By: /s/ James E. McCollam

James E. McCollam, Chief Financial Officer

