

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

SPORTS ARENAS INC  
Form 10-Q  
November 14, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-2380

SPORTS ARENAS, INC.  
-----

(Exact name of registrant as specified in its charter)

Delaware 13-1944249  
-----

(State of Incorporation) (I.R.S. Employer I.D. No.)

7415 Carroll Road, Suite C, San Diego, California 92121  
-----

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (858) 408-0364

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes X No  
--- ---

The number of shares outstanding of the issuer's only class of common stock (\$.01 par value) as of October 31, 2002 was 27,250,000 shares.

SPORTS ARENAS, INC.

FORM 10-Q

# Edgar Filing: SPORTS ARENAS INC - Form 10-Q

QUARTER ENDED SEPTEMBER 30, 2002

## INDEX

Part I - Financial Information:

Item 1.- Consolidated Condensed Financial Statements:

Unaudited Balance Sheets as of September 30, 2002 and June 30, 2002 .....	1-2
Unaudited Statements of Operations for the Three Months Ended September 30, 2002 and 2001 .....	3
Unaudited Statements of Cash Flows for the Three Months Ended September 30, 2002 and 2001.....	4
Notes to Financial Statements.....	5-6

Item 2.- Management's Discussion and Analysis of Financial Condition and Results of Operations.....	7-10
--	------

Item 3.- Quantitative and Qualitative Disclosures about Market Risk...	10
--	----

Item 4.- Controls and Procedures .....	11
--	----

Part II - Other Information.....	11
----------------------------------	----

Signatures.....	12
-----------------	----

Officer Certifications .....	13-14
------------------------------	-------

SPORTS ARENAS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS  
(Unaudited)

	September 30, 2002	June 30, 2002
	-----	-----
Current assets:		
Cash and cash equivalents .....	\$ 53,014	\$ 39,345
Receivables .....	370,555	444,996
Inventories .....	778,954	792,690
Prepaid expenses .....	111,746	38,706
	-----	-----
Total current assets .....	1,314,269	1,315,737
	-----	-----

Receivables due after one year:

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Note receivable- affiliate, net .....	--	--
	-----	-----
Property and equipment, at cost:		
Equipment and leasehold improvements .....	2,345,406	2,345,406
Less accumulated depreciation and amortization .....	(1,367,144)	(1,314,680)
	-----	-----
Net property and equipment .....	978,262	1,030,726
	-----	-----
Other assets:		
Intangible assets, net .....	27,963	37,284
Investments .....	432,657	423,657
Other .....	95,999	95,999
	-----	-----
	556,619	556,940
	-----	-----
	\$ 2,849,150	\$ 2,903,403
	=====	=====

1

SPORTS ARENAS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS (CONTINUED)

LIABILITIES AND SHAREHOLDERS' DEFICIT  
(Unaudited)

	September 30, 2002	June 30, 2002
	-----	-----
Current liabilities:		
Notes payable-short term .....	\$ 725,631	\$ 445,000
Current portion of long-term debt .....	5,000	8,000
Accounts payable .....	1,100,474	963,402
Accrued payroll and related expenses .....	262,332	215,093
Accrued interest .....	29,223	276,735
Other liabilities .....	121,457	92,803
	-----	-----
Total current liabilities .....	2,244,117	2,001,033
	-----	-----
Long-term debt, excluding current portion .....	5,935	5,456
	-----	-----
Distributions received in excess of basis in investment .....	18,226,081	18,008,401
	-----	-----
Other liabilities .....	204,000	192,000
	-----	-----

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Minority interest in consolidated subsidiary .....	802,677	802,677
	-----	-----
Shareholders' deficit:		
Common stock, \$.01 par value, 50,000,000 shares authorized, 27,250,000 shares issued and outstanding .....	272,500	272,500
Additional paid-in capital .....	1,730,049	1,730,049
Accumulated deficit .....	(18,344,717)	(17,817,221)
	-----	-----
	(16,342,168)	(15,814,672)
Less note receivable from shareholder .....	(2,291,492)	(2,291,492)
	-----	-----
Total shareholders' deficit .....	(18,633,660)	(18,106,164)
	-----	-----
Commitments and contingencies (Note 6)		
	\$ 2,849,150	\$ 2,903,403
	=====	=====

See accompanying notes to consolidated condensed financial statements.

2

SPORTS ARENAS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001  
(Unaudited)

	2002	2001
	-----	-----
Revenues:		
Bowling .....	\$ 357,603	\$ 383,821
Rental .....	17,976	58,859
Golf .....	635,074	444,223
Other .....	41,828	38,139
Other-related party .....	48,224	46,069
	-----	-----
	1,100,705	971,111
	-----	-----
Costs and expenses:		
Bowling .....	342,765	346,919
Rental .....	18,700	58,710
Golf .....	646,261	499,069
Selling, general, and administrative .....	576,753	652,763
Depreciation and amortization .....	65,819	71,663
	-----	-----
	1,650,298	1,629,124

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	-----	-----
Loss from operations .....	(549,593)	(658,013)
	-----	-----
Other income (charges):		
Investment income:		
Related party .....	9,070	6,771
Other .....	--	1,807
Interest expense and amortization of finance costs	(33,648)	(24,982)
Equity in income (loss) of investees .....	46,675	(33,301)
	-----	-----
	22,097	(49,705)
	-----	-----
Net loss .....	\$ (527,496)	\$ (707,718)
	=====	=====
Basic and diluted net loss per common share (based on 27,250,000 weighted average common shares outstanding) .....	\$ (0.02)	\$ (0.03)
	=====	=====

See accompanying notes to consolidated condensed financial statements.

3

SPORTS ARENAS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001  
(Unaudited)

	2002	2001
	-----	-----
Cash flows from operating activities:		
Net loss .....	\$ (527,496)	\$ (707,718)
Adjustments to reconcile net loss to the net cash used by operating activities:		
Depreciation and amortization .....	65,819	71,663
Equity in (income) loss of investees .....	(46,675)	33,301
Deferred income .....	12,000	12,000
Changes in assets and liabilities:		
Decrease in receivables .....	74,441	111,992
Decrease in inventories .....	13,736	21,006
Increase in prepaid expenses .....	(73,040)	(18,838)
Increase (decrease) in accounts payable .....	137,072	(68,124)
Increase in accrued expenses .....	109,012	75,787
Other .....	9,321	9,321
	-----	-----
Net cash used by operating activities .....	(225,810)	(459,610)

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	-----	-----
Cash flows from investing activities:		
Distribution to holders of minority interest .....	--	(25,000)
Distributions from investees .....	242,000	145,500
	-----	-----
Net cash provided by investing activities ...	242,000	120,500
	-----	-----
Cash flows from financing activities:		
Scheduled principal payments on long-term debt ...	(2,521)	(12,760)
	-----	-----
Net cash used by financing activities .....	(2,521)	(12,760)
	-----	-----
Net increase (decrease) in cash and		
cash equivalents .....	13,669	(351,870)
Cash and cash equivalents, beginning of period .....	39,345	515,204
	-----	-----
Cash and cash equivalents, end of period .....	\$    53,014	\$  163,334
	=====	=====
Supplemental Disclosure of Non-Cash Financing Activities:		
Reclassification of principal payments on short-term		
debt to accrued interest .....	\$  280,631	\$    --
	=====	=====

See accompanying notes to consolidated condensed financial statements.

4

SPORTS ARENAS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2002 AND 2001 (Unaudited)

- The information furnished reflects all adjustments of a recurring nature which management believes are necessary to a fair statement of the Company's financial position, results of operations and cash flows for the interim periods.
- Due to the seasonal fluctuations of the bowling and golf club shaft manufacturing operations, the financial results for the interim periods ended September 30, 2002 and 2001, are not necessarily indicative of operations for the entire year.
- Investments:

(a) Investments consist of the following:

	September 30, 2002	June 30, 2002
	-----	-----
Vail Ranch Limited Partnership (equity method) .....	\$  432,657	\$  423,657
	=====	=====
Investment in UCV, L.P. classified as liability- Distributions received in excess of basis in investment .....	\$18,226,081	\$18,008,401
	=====	=====

## Edgar Filing: SPORTS ARENAS INC - Form 10-Q

The following is a summary of the equity in income (loss) of the investments accounted for by the equity method:

	2002	2001
	-----	-----
UCV, L.P. ....	\$ 37,675	\$ 19,699
Vail Ranch Limited Partnership	9,000	(53,000)
	-----	-----
	\$ 46,675	\$(33,301)
	=====	=====

The following is a summary of distributions received from investees:

	2002	2001
	-----	-----
UCV, L.P. ....	\$242,000	\$145,500
Vail Ranch Limited Partnership	--	--
	-----	-----
	\$242,000	\$145,500
	=====	=====

(b) Investment in UCV, L.P.

The operating results of this investment are included in the accompanying consolidated condensed statements of operations based upon the partnership's fiscal year (March 31). Summarized information from UCV, L.P.'s (UCV) unaudited statements of income for the three-month periods ended June 30, 2002 and 2001 are as follows:

	2002	2001
	-----	-----
Revenues .....	\$1,376,000	\$1,329,000
Operating and general and administrative costs .....	461,000	418,000
Depreciation .....	3,000	3,000
Interest expense .....	836,000	868,000
Net income .....	76,000	40,000

4. Contingencies:

The Company is involved in various routine litigation and disputes incident to its business. In management's opinion, based in part on the advice of legal counsel, none of these matters will have a material adverse effect on the Company's financial position.

5

5. Business segment information:

The Company operates principally in four business segments: bowling centers, commercial real estate rental, real estate development, and golf club shaft manufacturing. Other revenues, which are not part of an identified segment, consist of property management and development fees (earned from both a property 50 percent owned by the Company and a property in which the Company has no ownership) and commercial brokerage.

The following is summarized information about the Company's operations by business segment.

	Real Estate	Real Estate	
Bowling	Rental	Development	Golf
			Unal
			An

## Edgar Filing: SPORTS ARENAS INC - Form 10-Q

-----  
 -----  
 THREE MONTHS ENDED SEPTEMBER 30, 2002:  
 -----

Revenues .....	\$ 357,603	\$ 17,976	\$ --	\$ 635,074	\$
Depreciation and amortization...	6,099	13,355	--	41,757	
Interest expense .....	--	--	--	--	
Equity in income of investees ..	--	37,675	9,000	--	
Segment profit (loss) .....	(74,522)	23,596	9,000	(371,872)	
Investment income .....					
Loss from operations .....					

-----  
 -----  
 THREE MONTHS ENDED SEPTEMBER 30, 2001:  
 -----

Revenues .....	\$ 383,821	\$ 58,859	\$ --	\$ 444,223	\$
Depreciation and amortization...	2,490	13,829	--	42,774	
Interest expense .....	--	--	--	--	
Equity in income of investees ..	--	19,699	(53,000)	--	
Segment profit (loss) .....	(53,573)	6,019	(58,000)	(465,254)	
Investment income .....					
Loss from operations .....					

### 6. Impact of Adopting SFAS No. 142, Goodwill and Other Intangible Assets

The Company does not have goodwill or intangible assets that have indefinite useful lives recorded on the accompanying consolidated condensed balance sheets. The Company only maintains intangible assets that have finite useful lives which are amortized over their useful lives.

### 7. Liquidity

The accompanying consolidated condensed financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses, has a working capital deficiency, and is forecasting negative cash flows for the next twelve months. These items raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on either refinancing or selling certain real estate assets, obtaining additional investors in its subsidiary, Penley Sports, or increases in the sales volume of Penley Sports. The consolidated condensed financial statements do not contain adjustments, if any, including diminished recovery of asset carrying amounts, that could arise from forced dispositions and other insolvency costs.

6

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

### ----- ----- CONDITION AND RESULTS OF OPERATIONS: -----

#### LIQUIDITY AND CAPITAL RESOURCES -----

The independent auditors' report dated September 23, 2002 included in our June 30, 2002 Annual Report on Form 10-K contained the following explanatory paragraph:

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in



## Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Note 14 to the consolidated financial statements, the Company has suffered recurring losses, has a working capital deficiency and shareholders' deficit, and is forecasting negative cash flows from operating activities for the next twelve months. These items raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Management estimates negative cash flow of \$500,000 to \$700,000 in total for the remaining three quarters of the year ending June 30, 2003 from operating activities after deducting capital expenditures and principal payments on notes payable and adding estimated distributions from UCV.

The short-term loan from the Company's partner in UCV is due on demand. The Company is exploring selling its partner a portion of the Company's interest in UCV in satisfaction of the remaining loan obligations. At this point management is unable to assess the likelihood a transaction will be consummated.

Vail Ranch Limited Partners is negotiating the sale of its partnership interest in Temecula Creek Partners to its other partner in Temecula Creek. The Company estimates that its share of the proceeds from this sale to be approximately \$550,000 to \$650,000. The Company is obligated to pay approximately one-half of these proceeds to its minority partner.

Management expects continuing cash flow deficits until Penley Sports develops sufficient sales volume to become profitable. Although, there can be no assurances that Penley Sports will ever achieve profitable operations, management estimates that a combination of continued increases in the sales of Penley Sports and reduction of its operating costs will result in Penley Sports and the Company achieving a breakeven level of operations at the end of the next two quarters.

Management is currently evaluating other sources of working capital including the sale of assets or obtaining additional investors in Penley Sports. Management has not assessed the likelihood of any other sources of long-term or short-term liquidity. If the Company is not successful in obtaining other sources of working capital this could have a material adverse effect on the Company's ability to continue as a going concern. However, management believes it will be able to meet its financial obligations for the next twelve months.

The Company has a working capital deficit of \$929,848 at September 30, 2002, which is a \$244,552 increase from the working capital deficit of \$685,296 at June 30, 2002. The increase in working capital deficit is primarily attributable to the cash used by operating activities for the three months ended September 30, 2002. The following is a schedule of the cash provided (used) before changes in assets and liabilities, segregated by business segments:

	2002	2001	Change
	-----	-----	-----
Bowling .....	\$ (68,000)	\$ (51,000)	\$ (17,000)
Rental .....	(1,000)	--	(1,000)
Golf .....	(331,000)	(423,000)	92,000
Development .....	--	(5,000)	5,000
General corporate expense and other .....	(97,000)	(112,000)	15,000
	-----	-----	-----
Cash used by continuing operations .....	(497,000)	(591,000)	94,000
Capital expenditures, net of financing .....	--	--	--
Principal payments on			

## Edgar Filing: SPORTS ARENAS INC - Form 10-Q

long-term debt .....	(3,000)	(13,000)	10,000
	-----	-----	-----
Cash used .....	(500,000)	(604,000)	104,000
	=====	=====	=====
Distributions received from investees .....	242,000	146,000	96,000
	=====	=====	=====

7

### CRITICAL ACCOUNTING POLICIES

-----

In response to the SEC's release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies", the Company has identified its most critical accounting policy as that related to the carrying value of its long-lived assets. Any event or circumstance that indicates to the Company an impairment of the fair value of any asset is recorded in the period in which such event or circumstance becomes known to the Company. During the quarter ended September 30, 2002 no such event or circumstance occurred that would, in the opinion of management, signify the need for a material reduction in the carrying value of any of the Company's assets.

### NEW ACCOUNTING PRONOUNCEMENTS

-----

In June of 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. This statement will only have an effect on the Company's financial statements to the extent future exit or disposal activities relevant to SFAS No. 146 occur.

### "SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

-----

With the exception of historical information (information relating to the Company's financial condition and results of operations at historical dates or for historical periods), the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements that necessarily are based on certain assumptions and are subject to certain risks and uncertainties. These forward-looking statements are based on management's expectations as of the date hereof, and the Company does not undertake any responsibility to update any of these statements in the future. Actual future performance and results could differ from that contained in or suggested by these forward-looking statements as a result of the factors set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in the Company's filings with the Securities and Exchange Commission.

### RESULTS OF OPERATIONS

-----

The following is a summary of the changes in the results of operations of the three-month period ended September 30, 2002 to the same period in 2001 and a discussion of the significant changes:

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	Bowling	Rental Operation	Real Estate Development	Golf	Unallo And O
	-----	-----	-----	-----	-----
Revenues .....	\$ (26,218)	\$ (40,883)	\$ --	\$ 190,851	\$ 5
Costs .....	(4,154)	(40,010)	--	147,192	
SG&A-direct .....	(3,515)	--	--	(49,706)	(22
SG&A-allocated .....	(1,209)	--	(5,000)	1,000	5
Depreciation and amortization ...	3,609	(474)	--	(1,017)	(7
Interest expense .....	--	--	--	--	8
Equity in investees .....	--	17,976	62,000	--	
Segment profit (loss) .....	(20,949)	17,577	67,000	93,382	22
Investment income .....					
Net loss .....					

BOWLING OPERATIONS:

-----

Bowl revenues decreased by 7% primarily due to a 14% decrease in the number of games bowled. This decrease was almost identical for both open and league play. This decrease was offset by a 9% increase in the average price of games bowled.

8

RENTAL OPERATIONS:

-----

This segment includes the equity in income of the operation of a 542 unit apartment project (UCV), a subleasehold interest in land underlying a condominium project (PS Sublease) (which was sold in March 2002), and the sublease of a portion of the Penley factory. The following is a summary of the changes in operations:

	2002 vs. 2001		
	PS Sublease	Other	Combined
	-----	-----	-----
Revenues .....	\$ (41,459)	\$ 576	\$ (40,883)
Costs .....	(40,710)	700	(40,010)
SG&A-allocated .....	--	--	--
Depreciation and amortization .....	(474)	--	(474)
Interest expense .....	--	--	--
Equity in income of UCV ...	--	17,976	17,976
Segment profit (loss) .....	(275)	17,852	17,577

The primary reason for the decline in rental revenues and costs related to the sale of the PS Sublease in March 2002.

The equity in income of UCV increased by \$18,000 in 2002 primarily due to a decrease in interest expense related to the lower interest rate applicable to the refinancing in March 2002. The following is a summary of the changes in the operations of UCV, LP in 2002 compared to the prior period:

Revenues .....	\$ 47,000
Costs .....	43,000
Depreciation .....	--
Interest and amortization of loan costs	(32,000)
Net income .....	36,000

Rental income of UCV increased primarily due to a 6% increase in the average

## Edgar Filing: SPORTS ARENAS INC - Form 10-Q

rental rate. This increase was partially offset by an increase in the vacancy for the period from 1.4 percent to 2.9 percent.

### REAL ESTATE DEVELOPMENT OPERATIONS:

-----  
 The increase in the equity in income of Vail Ranch Limited Partners (VRLP), relates to the increase in the income from the operation of the partially completed shopping center for which the first store commenced operations in July 2000 and is now reaching a level of stabilized operations after being leased up.

### GOLF OPERATIONS:

-----  
 Golf revenues increased in 2002 due to increases in sales to small golf club manufacturers and golf equipment distributors. The following is a breakdown of the percentage of sales by customer category:

	2002	2001
	----	----
Golf equipment distributors .	35%	23%
Small golf club manufacturers	28%	16%
Golf shops .....	29%	48%
Other .....	8%	13%

9

Operating expenses of the golf segment consisted of the following in 2002 and 2001:

	2002	2001	Decrease
	-----	-----	-----
Costs of sales and			
manufacturing overhead .	\$ 598,000	\$ 440,000	\$ 158,000
Research and development ..	48,000	59,000	(11,000)
	-----	-----	-----
Total golf costs .....	646,000	499,000	147,000
	=====	=====	=====
Marketing and promotion ...	178,000	266,000	(88,000)
Administrative costs- direct	79,000	41,000	38,000
	-----	-----	-----
Total SG&A-direct .....	257,000	307,000	(50,000)
	=====	=====	=====

Total golf costs increased in 2002 primarily due to the cost of goods sold and other manufacturing overhead (primarily payroll) associated with increased sales. Marketing and promotion expenses decreased primarily due to the Company not renewing the contract with its marketing consultant in May 2002 (\$43,000 decrease). Marketing and promotion otherwise decreased due to a decrease in the tour program expenses that resulted from staffing the program with one person instead of two. Administrative expenses increased primarily due to \$23,000 increase in bad debt expense.

### ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

-----  
 The Company is exposed to market risk primarily due to fluctuations in interest rates. The Company utilizes both fixed rate and variable rate debt. The following table presents principal maturities and related weighted average interest rates of the Company's long-term fixed rate and variable rate debt for the fiscal years ended June 30.

## Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	2003 -----	2004 -----	Total -----	Fair Value -----
				(1)
Fixed rate debt ..	\$ 5,000	\$ 6,000	\$ 11,000	\$ 11,000
Weighted average interest rate .	13.6%	13.6%	13.6%	
Variable rate debt	\$ 726,000	--	\$ 726,000	\$ 726,000
Weighted average interest rate .	5.8%	--	5.8%	

The amounts for 2003 relate to the nine months ending June 30, 2003.

(1)The fair value of fixed-rate debt and variable-rate debt were estimated based on the current rates offered for fixed-rate debt and variable-rate debt with similar risks and maturities.

The variable rate debt includes a \$726,000 short term note payable that is due on demand, which for purposes of this calculation has been treated as though paid during the year ending June 30, 2003.

The Company's unconsolidated subsidiary, UCV, has two notes payable which mature April 1, 2003 as a result of a refinancing in March 2002. The first loan is variable rate debt of \$36,000,000 for which the interest rate was 5.4 percent as of June 30, 2002. However, there is a floor of 5.4% established by the lender and a cap purchased by UCV which effectively caps the maximum rate on this loan at 7%. The scheduled principal payments for UCV's fiscal years ending March 31 2003 is \$36,000,000. The estimated fair value of this debt is \$36,000,000 based on the current rates offered for this type of loan with similar risks and maturities. The second loan of \$2,000,000 is fixed rate debt at 12.5%. The scheduled principal payments for UCV's fiscal years ending March 31 2003 is \$2,000,000. The estimated fair value of this debt is \$2,000,000 based on the current rates offered for this type of loan with similar risks and maturities.

The Company does not enter into derivative or interest rate transactions for speculative or trading purposes.

10

#### ITEM 4. CONTROLS AND PROCEDURES

-----

We maintain disclosure controls and procedures (as defined in Securities Exchange Act 1934 Rules 13a-14(c) and 15d-4(c)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures,

Within 90 days prior to the date of this quarterly report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were

## Edgar Filing: SPORTS ARENAS INC - Form 10-Q

effective.

### Changes in Internal Controls:

There have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore no corrective actions were taken.

## PART II OTHER INFORMATION

### ITEM 1. Legal Proceedings

As of September 30, 2002, there were no changes in legal proceedings from those set forth in Item 3 of the Form 10-K filed for the year ended June 30, 2002.

### ITEM 2. Changes in Securities

NONE

### ITEM 3. Defaults upon Senior Securities

N/A

### ITEM 4. Submission of Matters to a Vote of Security Holder

-----

NONE

### ITEM 5. Other Information

NONE

### ITEM 6. Exhibits & Reports on Form 8-K

(a) Exhibits: NONE

(b) Reports on Form 8-K: NONE

11

## SIGNATURES

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

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

SPORTS ARENAS, INC.

By: /s/ Harold S. Elkan  
-----

Harold S. Elkan, President and Director

Date: November 14, 2002  
-----

By:/s/ Steven R. Whitman  
-----

Steven R. Whitman, Treasurer,  
Principal Accounting Officer and Director

Date: November 14, 2002  
-----

12

CERTIFICATIONS

I, Harold S. Elkan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sports Arenas, Inc.;
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 we 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

## Edgar Filing: SPORTS ARENAS INC - Form 10-Q

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 officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of 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 officer and I have indicated in this quarterly report whether or not there were any 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: November 14, 2002  
-----

By: /s/ Harold S. Elkan  
-----

Harold S. Elkan  
President and Chief Executive Officer

13

I, Steven R. Whitman, certify that:

1. I have reviewed this quarterly report on Form I0-Q of Sports Arenas, Inc.;
2. Bared 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 we 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



## Edgar Filing: SPORTS ARENAS INC - Form 10-Q

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 officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of 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 officer and I have indicated in this quarterly report whether or not there were any 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: November 14, 2002

By:/s/ Steven R. Whitman

-----

Steven R. Whitman  
Chief Financial Officer