

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

SPORTS ARENAS INC  
Form 10-Q  
May 17, 2004

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 March 31, 2004

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 No  
--- ---

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No X  
--- ---

The number of shares outstanding of the issuer's only class of common stock (\$.01 par value) as of April 30, 2004 was 27,250,000 shares.

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

SPORTS ARENAS, INC.

FORM 10-Q

QUARTER ENDED MARCH 31, 2004

INDEX

## Part I - Financial Information:

### Item 1.- Consolidated Condensed Financial Statements:

Unaudited Balance Sheets as of March 31, 2004 and June 30, 2003 .....	1-2
Unaudited Statements of Operations for the Three Months Ended March 31, 2004 and 2003 .....	3
Unaudited Statements of Operations for the Nine Months Ended March 31, 2004 and 2003 .....	4
Unaudited Statements of Cash Flows for the Nine Months Ended March 31, 2004 and 2003 .....	5
Notes to Financial Statements.....	6-9
Item 2.- Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10-15
Item 3.- Quantitative and Qualitative Disclosures about Market Risk...	15
Item 4.- Controls and Procedures .....	15
Part II - Other Information.....	16
Exhibits and reports on Form 8-K .....	16
Signatures.....	17

### SPORTS ARENAS, INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED BALANCE SHEETS

#### ASSETS (Unaudited)

March 31, 2004	June 30, 2003
-------------------	------------------

Current assets:

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Cash and cash equivalents .....	\$ 132,200	\$ 365,674
Other receivable-affiliate .....	--	350,000
Receivables .....	388,457	402,875
Inventories .....	672,824	641,127
Prepaid expenses .....	33,436	34,958
	-----	-----
Total current assets .....	1,226,917	1,794,634
	-----	-----
Property and equipment, at cost:		
Equipment.....	1,997,600	1,889,395
Less accumulated depreciation and amortization	(1,118,509)	(1,052,740)
	-----	-----
Net property and equipment .....	879,091	836,655
	-----	-----
Other assets:		
Investments .....	4,068,668	5,344,007
Deferred tax assets .....	5,177,000	4,661,000
Other .....	77,371	95,671
	-----	-----
	9,323,039	10,100,678
	-----	-----
	\$11,429,047	\$12,731,967
	=====	=====

1

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

LIABILITIES AND SHAREHOLDERS' EQUITY  
(Unaudited)

	March 31, 2004	June 30, 2003
	-----	-----
Current liabilities:		
Current portion of long-term debt .....	\$ 17,691	\$ 5,771
Accounts payable .....	437,336	441,434
Accrued payroll and related expenses .....	329,117	282,080
Deferred income taxes .....	926,000	--
Other liabilities .....	6,576	3,796
	-----	-----
Total current liabilities .....	1,716,720	733,081
	-----	-----
Long-term debt, excluding current portion .....	72,030	--
	-----	-----

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Deferred income taxes .....	9,390,000	10,514,000
	-----	-----
Minority interest in consolidated subsidiary .....	373,839	431,839
	-----	-----
Shareholders' equity (deficiency):		
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
Retained earnings .....	165,401	1,341,990
	-----	-----
	2,167,950	3,344,539
Less note receivable from shareholder .....	(2,291,492)	(2,291,492)
	-----	-----
Total shareholders' equity (deficiency) .....	(123,542)	1,053,047
	-----	-----
Commitments and contingencies (Note 6)		
	\$11,429,047	\$12,731,967
	=====	=====

See accompanying notes to consolidated condensed financial statements.

2

SPORTS ARENAS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
THREE MONTHS ENDED MARCH 31, 2004 AND 2003  
(Unaudited)

	2004	2003
	-----	-----
Revenues:		
Golf .....	\$ 822,499	\$ 841,552
Rental .....	20,022	19,335
Other .....	24,468	8,103
Other-related party .....	14,482	49,360
	-----	-----
	881,471	918,350
	-----	-----
Costs and expenses:		
Golf .....	847,306	654,047
Rental .....	19,500	18,800
Selling, general, and administrative .....	687,571	564,274
Depreciation and amortization .....	52,938	59,720
	-----	-----
	1,607,315	1,296,841

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	-----	-----
Loss from operations .....	(725,844)	(378,491)
	-----	-----
Other income (charges):		
Investment income- related party .....	9,072	7,946
Investment income- other .....	2	--
Interest expense and amortization of finance costs	(1,105)	(10,659)
Equity in income (loss) of investees .....	62,335	(75,987)
	-----	-----
	70,304	(78,700)
	-----	-----
Loss from continuing operations before income taxes..	(655,540)	(457,191)
Income tax benefit .....	198,000	--
	-----	-----
Loss from continuing operations .....	(457,540)	(457,191)
Gain from discontinued operations .....	88,009	258,092
	-----	-----
Net loss .....	\$ (369,531)	\$ (199,099)
	=====	=====
Per common share (based on weighted average shares outstanding) basic and diluted:		
Loss from continuing operations .....	(\$0.01)	(\$0.02)
Discontinued operations .....	--	0.01
	-----	-----
Net loss .....	(\$0.01)	(\$0.01)
	=====	=====

See accompanying notes to consolidated condensed financial statements.

3

SPORTS ARENAS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
NINE MONTHS ENDED MARCH 31, 2004 AND 2003  
(Unaudited)

	2004	2003
	-----	-----
Revenues:		
Golf .....	\$ 1,804,024	\$ 1,973,303
Rental .....	62,513	59,622
Other .....	45,797	164,155
Other-related party .....	32,817	146,229
	-----	-----
	1,945,151	2,343,309
	-----	-----
Costs and expenses:		
Golf .....	2,103,996	1,799,188
Rental .....	57,900	56,200
Selling, general, and administrative .....	1,868,362	1,580,812
Depreciation and amortization .....	151,145	179,160

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	-----	-----
	4,181,403	3,615,360
	-----	-----
Loss from operations .....	(2,236,252)	(1,272,051)
	-----	-----
Other income (charges):		
Investment income:		
Related party .....	24,072	24,230
Other .....	299	--
Interest expense and amortization of finance costs	(1,811)	(56,181)
Gain on sale .....	78,533	--
Equity in income (loss) of investees .....	156,561	(8,786)
	-----	-----
	257,654	(40,737)
	-----	-----
Loss from continuing operations before income taxes and change in accounting principle .....	(1,978,598)	(1,312,788)
Income tax benefit .....	714,000	--
	-----	-----
Loss from continuing operations .....	(1,264,598)	(1,312,788)
Gain from discontinued operations .....	88,009	149,823
Cumulative effect of change in accounting principle .	--	37,675
	-----	-----
Net loss .....	\$ (1,176,589)	\$ (1,125,290)
	=====	=====
Per common share (based on weighted average shares outstanding) basic and diluted:		
Loss from continuing operations .....	(\$0.04)	(\$0.05)
Discontinued operations .....	--	0.01
Cumulative effect of change in accounting principle	--	--
	-----	-----
Net loss .....	(\$0.04)	(\$0.04)
	=====	=====

See accompanying notes to consolidated condensed financial statements.

SPORTS ARENAS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
NINE MONTHS ENDED MARCH 31, 2004 AND 2003  
(Unaudited)

	2004	2003
	-----	-----
Cash flows from operating activities:		
Net loss .....	\$ (1,176,589)	\$ (1,125,290)
Less gain from discontinued operations .....	(88,009)	(149,823)
	-----	-----
Loss from continuing operations .....	(1,264,598)	(1,275,113)
Adjustments to reconcile net loss to the net cash used by operating activities:		
Depreciation and amortization .....	151,145	179,160

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Equity in income of investees .....	(156,561)	8,786
Gain on sales .....	(78,533)	--
Deferred income .....	--	36,000
Provision for deferred income taxes .....	(714,000)	--
Change in accounting principle .....	--	(37,675)
Changes in assets and liabilities:		
(Increase) decrease in receivables .....	364,418	(9,600)
(Increase) decrease in inventories .....	(31,697)	159,604
Decrease in prepaid expenses .....	1,522	32,804
Decrease in accounts payable .....	(4,098)	(346,500)
Increase in accrued expenses .....	49,817	107,591
Other .....	18,300	27,963
	-----	-----
Net cash used by continuing operations .....	(1,664,285)	(1,116,980)
Net cash used by discontinued operations .....	--	(89,197)
	-----	-----
Net cash used by operating activities .....	(1,664,285)	(1,206,177)
	-----	-----
Cash flows from investing activities:		
Capital expenditures .....	(193,581)	(4,310)
Distribution to holder of minority interest .....	(58,000)	(370,838)
Proceeds from sale of assets .....	78,533	--
Distributions from investees .....	1,519,909	2,118,276
	-----	-----
Net cash provided by investing activities .....	1,346,861	1,743,128
	-----	-----
Cash flows from financing activities:		
Scheduled principal payments on long-term debt ...	(12,528)	(5,903)
Proceeds from short-term debt .....	--	75,000
Payments on short-term debt .....	--	(460,044)
Proceeds from long-term debt .....	96,478	--
	-----	-----
Net cash provided (used) by financing activities ...	83,950	(390,947)
	-----	-----
Net increase (decrease) in cash and cash equivalents.	(233,474)	146,004
Cash and cash equivalents, beginning of period .....	365,674	39,345
	-----	-----
Cash and cash equivalents, end of period .....	\$ 132,200	\$ 185,349
	=====	=====

Supplemental Disclosure of Non-Cash Financing Activities:

Interest paid .....	\$ 1,811	\$ 41,153
	=====	=====
Reclassification of principal payments on short-term debt to accrued interest .....	\$ --	\$ 280,631
	=====	=====
Reclassification of non-current deferred tax liability to current portion .....	\$ 926,000	\$ --
	=====	=====

In December 2003, the Company sold an auto for \$18,000 with a cost and accumulated depreciation of \$85,376.

In November 2003, the Company received a \$60,533 payment on the sale of All Season Inns and wrote off the cost of \$37,926 and valuation allowance of \$37,926.

In February 2004, the Company sold an asset classified as other for \$31,085 which had a cost of \$15,000.

See accompanying notes to consolidated condensed financial statements.

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

MARCH 31, 2004 AND 2003 (Unaudited)

1. 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. Certain information and note disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report filed on Form 10-K on October 14, 2003 for the year ended June 30, 2003.

Revenue recognition- the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the amount is fixed or determinable and collectibility is probable. All of these conditions are typically met at the time the Company ships products to its customers.

2. Due to the seasonal fluctuations of the golf club shaft manufacturing operations, the financial results for the interim periods ended March 31, 2004 and 2003, are not necessarily indicative of operations for the entire year.

3. Investments:

Investments consist of the following:

	March 31, 2004	June 30, 2003
	-----	-----
UCV, L.P. ....	\$ 4,068,668	\$ 5,277,007
Vail Ranch Limited Partnership (VRLP).....	--	67,000
	-----	-----
Total .....	\$ 4,068,668	\$ 5,344,007
	=====	=====

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

	Nine Months		Three Months	
	2004	2003	2004	2003
	-----	-----	-----	-----
UCV, L.P. ....	\$156,561	\$ (8,786)	\$ 62,335	\$(75,987)
	=====	=====	=====	=====

The equity in the income of VRLP has been presented as income from discontinued operations (Note 7).

The following is a summary of distributions received from investees:

	2004	2003
	-----	-----
UCV, L.P. ....	\$1,364,900	\$1,525,500
Vail Ranch Limited Partnership	155,009	592,776
	-----	-----
	\$1,519,909	\$2,118,276
	=====	=====

As discussed in footnote 5(c) to the Company's June 30, 2003 annual report on Form 10-K, effective April 1, 2003, the Company began recording its equity in the income of UCV, L.P. (UCV) on a current basis rather than on a



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

91 day delayed basis. The Company has treated this as a change in accounting principle and accordingly has classified its \$37,675 of equity in earnings of UCV for the period of April 1, 2002 through June 30, 2002 as the cumulative effect of a change in accounting principle in 2003. Therefore, the equity in income of UCV for the period July 1, 2003 through December 31, 2003 was \$94,226 (see footnote 15 to the Company's June 30, 2003 annual report on Form 10-K).

6

In November 2003 the Company received \$60,533 related to amounts due on the sale of the Company's investment in All Seasons Inns in a prior year. The Company had recorded a valuation allowance for the entire amount due at the time of sale. As a result, the amount received was classified as gain from sale. On April 15, 2004, the Company received an additional \$31,708, which represents the final payment due on the sale of its investment. An additional gain of \$31,708 was recorded at that time.

#### 4. Contingencies:

A lawsuit was filed on January 10, 2003 in the United States District Court in the Southern District of California by Masterson Marketing, Inc. (Masterson) against Penley Sports, LLC. Masterson's lawsuit originally asserted claims for copyright infringement, breach of contract, breach of fiduciary duty, and sought compensatory damages, punitive damages, statutory damages, and attorney fees. The Company filed a motion to dismiss all claims. In response to that motion, Masterson dropped all claims except for the claims of copyright infringement and breach of contract. Masterson also dropped all prayers for punitive damages, statutory damages, and attorney fees. It is not possible at this time to predict the outcome of this litigation. We intend to vigorously defend against these claims.

#### 5. Business segment information:

The Company operates principally in two business segments: commercial real estate rental 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.

7

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

	Real Estate Operation	Golf	Unallocated And Other	Totals
	-----	-----	-----	-----
<b>NINE MONTHS ENDED MARCH 31, 2004:</b>				
-----				
Revenues .....	\$ 62,513	\$ 1,804,024	\$ 78,614	\$ 1,945,15
Depreciation and amortization .....	--	127,628	23,517	151,14
Interest expense .....	--	--	1,811	1,81
Equity in income of investee .....	156,561	--	--	156,56
Gain on sale .....	--	--	78,533	78,53
Segment profit (loss) .....	161,174	(1,914,633)	(249,510)	(2,002,96
Investment income .....				24,37

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Loss from continuing operations before taxes.....					(1,978,59)
Significant non-cash items .....	(156,561)	--	--	--	(156,56)

NINE MONTHS ENDED MARCH 31, 2003:

Revenues .....	\$ 59,622	\$ 1,973,303	\$ 310,384	\$ 2,343,30
Depreciation and amortization .....	40,065	125,271	13,824	179,16
Interest expense .....	--	--	56,181	56,18
Equity in loss of investee .....	(8,786)	--	--	(8,78
Segment profit (loss) .....	(45,429)	(1,085,857)	(205,732)	(1,337,01
Investment income .....				24,23
Loss from continuing operations before taxes.....				(1,312,78
Significant non-cash items .....	(8,786)	--	--	(8,78

THREE MONTHS ENDED MARCH 31, 2004:

Revenues .....	\$ 20,022	\$ 822,499	\$ 38,950	\$ 881,47
Depreciation and amortization .....	--	42,729	10,209	52,93
Interest expense .....	--	--	1,105	1,10
Equity in income of investee .....	62,335	--	--	62,33
Segment profit (loss) .....	62,857	(677,642)	(49,829)	(664,61
Investment income .....				9,07
Loss from continuing operations before taxes.....				(655,54
Significant non-cash items .....	(62,335)	--	--	(62,33

THREE MONTHS ENDED MARCH 31, 2003:

Revenues .....	\$ 19,335	\$ 841,552	\$ 57,463	\$ 918,35
Depreciation and amortization .....	13,355	41,757	4,608	59,72
Interest expense .....	--	--	10,659	10,65
Equity in loss of investee .....	(75,987)	--	--	(75,98
Segment profit (loss) .....	(88,807)	(287,944)	(88,386)	(465,13
Investment income .....				7,94
Loss from continuing operations before taxes.....				(457,19
Significant non-cash items .....	(75,987)	--	--	(75,98

6. Liquidity

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses, has negative working capital, a shareholders' deficit, and is forecasting negative cash flows for the next twelve months. Additionally, the Company estimates that it will have a tax liability of approximately \$926,000 due in September 2004 as a result of reporting the taxable portion of the sale of the apartment project owned by UCV, LP. The Company is currently uncertain of where the Company will obtain the funds to pay these tax liabilities. 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 obtaining additional investors in its subsidiary, Penley Sports, or increasing the sales volume of Penley Sports. The consolidated financial statements do not contain adjustments,

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

if any, including diminished recovery of asset carrying amounts, that could arise from forced dispositions and other insolvency costs.

### 7. Discontinued Operations:

During the year ended June 30, 2003, the Company ceased operations in two business segments. The following is a summary of the income (loss) from the discontinued business segments for the periods ended March 31:

	Three Months		Nine Months	
	2004	2003	2004	2003
Bowling .....	\$ --	\$ (86,296)	\$ --	\$ 21,973
Real estate development .	88,009	236,119	88,009	236,119
	\$ 88,009	\$ 149,823	\$ 88,009	\$ 258,092
	=====	=====	=====	=====

### 8. Note receivable from shareholder:

In December 1990 the Company loaned \$1,061,009 to the Company's majority shareholder, Andrew Bradley, Inc. (ABI), which is 88% owned by Harold S. Elkan, the Company's President. The loan provided funds to ABI to pay its obligation related to its purchase of the Company's stock in November 1983. The loan to ABI provides for interest to accrue at an annual rate of prime plus 1-1/2 percentage points (5.50 percent at March 31, 2004) and to be added to the principal balance annually. The loan was due November 7, 2003. The loan is collateralized by 21,808,267 shares of the Company's stock owned by ABI. The original loan amount plus accrued interest of \$1,230,483 is presented as a reduction of shareholders' equity because ABI's only asset is the stock of the Company.

On November 7, 2003, the Company presented demand to ABI for payment of \$3,351,724, which represents the original principal balance plus accrued interest, of which \$1,060,232 had not been accrued by the Company. The note provides for a 5 day grace period and negotiations are underway between the Company and ABI with respect to disposition of the note.

9

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

### CONDITION AND RESULTS OF OPERATIONS:

#### LIQUIDITY AND CAPITAL RESOURCES

The independent auditors' report dated September 5, 2003 included in our June 30, 2003 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 Note 13 to the consolidated financial statements, the Company has suffered recurring losses, 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 13. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

Management estimates positive cash flow of \$50,000 to \$100,000 in total for the remaining quarter for the year ending June 30, 2004 from operating activities after deducting capital expenditures and principal payments on notes payable and adding estimated distributions from UCV and VRLP. However, Management estimates that it will have a tax liability of approximately \$926,000 due in September 2004 as a result of reporting the taxable portion of the sale of the apartment project owned by UCV, LP. Management is currently uncertain of where the Company will obtain the funds to pay these tax liabilities.

The Company estimates it will receive approximately \$240,000 of distributions from UCV in the fourth quarter of which \$100,000 was received on May 10, 2004. \$200,000 of these estimated distributions from UCV represents the remainder of funds to be distributed by UCV to the Company from the sales proceeds of UCV's apartment project.

In February 2003 Vail Ranch Limited Partners (VRLP) sold its membership interest in Temecula Creek LLC to its other partner in Temecula Creek LLC. VRLP was entitled to receive one-half of the sales proceeds from the sale of a remaining parcel of undeveloped land as well as the release of \$100,000 that was held back from the sales proceeds in February 2003. In December 2003 VRLP received \$121,955 as its share of the proceeds from the sale of the undeveloped land. In January 2004, VRLP received \$99,959 as the balance of the hold back plus an additional \$66,157 as final settlement for allocation of revenues and expenses. The Company received distributions from VRLP related to these transactions of \$58,173 in December 2003, \$59,975 in January 2004, and \$36,861 in March 2004. As part of the Company's obligation to pay approximately one-half of these proceeds to its minority partner, payments of \$29,000 each were made to the minority partner in December 2003 and January 2004 and \$15,000 in April 2004. The liability to the minority interest stated in the balance sheet is \$373,839 but is likely to be settled for a lesser amount based on the distributions received from VRLP.

In December 1990 the Company loaned \$1,061,009 to the Company's majority shareholder, Andrew Bradley, Inc. (ABI), which is 88% owned by Harold S. Elkan, the Company's President. The loan provided funds to ABI to pay its obligation related to its purchase of the Company's stock in November 1983. The loan to ABI provides for interest to accrue at an annual rate of prime plus 1-1/2 percentage points (5.50 percent at March 31, 2004) and to be added to the principal balance annually. The loan was due November 7, 2003. The loan is collateralized by 21,808,267 shares of the Company's stock owned by ABI. The original loan amount plus accrued interest of \$1,230,483 is presented as a reduction of shareholders' equity because ABI's only asset is the stock of the Company.

On November 7, 2003, the Company presented demand to ABI for payment of \$3,351,724, which represents the original principal balance plus accrued interest, of which \$1,060,232 has not been accrued by the Company. The note provides for a 5 day grace period and negotiations are underway between the Company and ABI with respect to disposition of the note.

10

Management expects continuing cash flow deficits until Penley Sports develops sufficient sales volume to become profitable. There can be no assurances that Penley Sports will ever achieve profitable operations. In April of 2004, management implemented a number of cost cutting measures to manufacturing and marketing and promotion (primarily the tour department). However, unless Penley can increase its revenues, it is not likely to reach a break even level of operations without identifying other opportunities to cut costs in manufacturing expenses.

Management is currently evaluating other sources of working capital including

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

the sale of assets or obtaining additional investors in Penley Sports. Management has not assessed the likelihood of the Company receiving 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.

The Company has working capital deficit of \$489,803 at March 31, 2004, which is a \$1,551,356 decrease from the working capital of \$1,061,553 at June 30, 2003. The decrease in working capital is primarily attributable to the reclassification of \$926,000 from a non-current deferred tax liability to a current deferred tax liability and cash used by operating activities for the nine months ended March 31, 2004. The cash used by operating activities was partially offset by distributions received from the Company's investees. The following is a schedule of the cash used before changes in assets and liabilities, segregated by business segments:

	2004	2003	Change
	-----	-----	-----
Rental .....	\$ 5,000	3,000	2,000
Golf .....	(1,787,000)	(962,000)	(825,000)
General corporate expense and other .....	(280,000)	(132,000)	(148,000)
	-----	-----	-----
Cash used by continuing operations .....	(2,062,000)	(1,091,000)	(971,000)
Discontinued operations:			
Bowling .....	--	(68,000)	68,000
Real estate development .	--	--	--
Capital expenditures.....	(194,000)	(4,000)	(190,000)
Principal payments on long-term debt .....	(13,000)	(6,000)	(7,000)
	-----	-----	-----
Cash used .....	(2,269,000)	(1,169,000)	(1,100,000)
	=====	=====	=====
Distributions received from investees .....	1,520,000	2,118,000	(598,000)
	=====	=====	=====

### 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 three and nine month periods ended March 31, 2004 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.

11

### NEW ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards, No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities, or SFAS No. 149, amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, SFAS No. 149 clarifies under what circumstances a contract within an initial net investment meets the characteristic of a

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

derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003, and is not expected to have a material impact on the Company's consolidated financial statements.

Statement of Financial Accounting Standards, No. 150 Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, or SFAS No. 150, establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 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. At the October 29, 2003 FASB Board meeting, the Board decided to indefinitely defer the effective date of SFAS No. 150 related to the classification and measurement requirements for mandatorily redeemable financial instruments that become subject to SFAS No. 150 solely as a result of consolidation, such as the minority interest in the accompanying financial statements.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was issued in January 2003. The Company will be required to apply FIN 46R to variable interests in VIEs created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. The Company currently does not have any VIEs in which it has variable interests.

### "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.

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

The following is a summary of the changes in the results of operations of the nine and three-month periods ended March 31, 2004 to the same period in 2003 and a discussion of the significant changes:

NINE MONTHS ENDED MARCH 31, 2004 VERSUS 2003				
	Real Estate Operations	Golf	Unallocated And Other	Total
Revenues .....	\$ 2,891	\$ (169,279)	\$ (231,770)	\$ (398,158)
Costs .....	1,700	304,808	--	306,508
SG&A-direct .....	--	97,332	98,022	195,354
SG&A-allocated .....	--	255,000	(162,804)	92,196
Depreciation and amortization .....	(40,065)	2,357	9,693	(28,015)
Interest expense .....	--	--	(54,370)	(54,370)
Gain from sale .....	--	--	78,533	78,533
Equity in investees .....	165,347	--	--	165,347
Segment profit (loss) .....	206,603	(828,776)	(43,778)	(665,951)
Investment income .....				141
Income tax benefit .....				714,000
Loss from continuing operations .....				48,190
Discontinued operations .....				(61,814)
Change in accounting principle				(37,675)
Net income (loss) .....				(51,299)

THREE MONTHS ENDED MARCH 31, 2004 VERSUS 2003				
	Real Estate Operations	Golf	Unallocated And Other	Total
Revenues .....	\$ 687	\$ (19,053)	\$ (18,513)	\$ (36,879)
Costs .....	700	193,259	--	193,959
SG&A-direct .....	--	98,414	(11,244)	87,170
SG&A-allocated .....	--	78,000	(41,873)	36,127
Depreciation and amortization .....	(13,355)	972	5,601	(6,782)
Interest expense .....	--	--	(9,554)	(9,554)
Equity in investees .....	138,322	--	--	138,322
Segment profit (loss) .....	151,664	(389,698)	38,557	(199,477)
Investment income .....				1,128
Income tax benefit .....				198,000
Loss from continuing operations .....				(349)
Discontinued operations .....				(170,083)
Change in accounting principle				--
Net loss .....				(170,432)

### REAL ESTATE OPERATIONS:

-----  
This segment includes the equity in income UCV, L.P. (UCV) and the sublease of a portion of the Penley factory. The operations of UCV consisted of the operation of a 542 unit apartment project until UCV sold the property on April 1, 2003. UCV acquired replacement properties on August 28, 2003, September 25, 2003 and September 26, 2003. The operations of UCV for the three and nine months ended March 31, 2004 included the operations of these properties since their

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

acquisition.

13

### GOLF OPERATIONS:

-----  
 Golf revenues declined in the nine month period primarily due to a decline in sales to golf club manufacturers. In one circumstance there was an order shipped in July 2002 for which there was no comparable sales activity in fiscal 2004. There were also two manufacturers that are no longer in business in 2004. Golf revenues declined in the third quarter primarily due to slight declines in sales to distributors and golf shops.

The following is a breakdown of the percentage of sales by customer category:

	Nine Months		Three Months	
	2004	2003	2004	2003
	-----	-----	-----	-----
Golf equipment distributors .	50%	42%	46%	48%
Small golf club manufacturers	24%	30%	32%	28%
Golf shops .....	23%	23%	19%	20%
Other .....	3%	5%	3%	4%

Operating expenses of the golf segment consisted of the following in 2004 and 2003:

	Nine Months		Three Months	
	2004	2003	2004	2003
	-----	-----	-----	-----
Costs of goods sold and manufacturing overhead	\$1,887,000	\$1,654,000	\$ 787,000	\$ 606,000
Research & development	217,000	145,000	60,000	48,000
	-----	-----	-----	-----
Total golf costs	2,104,000	1,799,000	847,000	654,000
	=====	=====	=====	=====
Marketing & promotion	824,000	741,000	378,000	299,000
Administrative-direct	217,000	203,000	87,000	68,000
	-----	-----	-----	-----
Total SG&A-direct	1,041,000	944,000	465,000	367,000
	=====	=====	=====	=====
Allocated corporate costs	446,000	191,000	145,000	67,000
	=====	=====	=====	=====

Total golf costs increased in the three and nine-month periods due to increases in costs to correct manufacturing problems caused by changes in the specifications of materials purchased from one of its "prepreg" vendors as well as an increase in the valuation reserve.

Marketing and promotion expenses increased in the three and nine-month periods due to an increase in advertising costs.

### OTHER

-----  
 Other revenues-related party decreased due to UCV's sale of its apartment project on April 1, 2003. The Company had received management fees and development fees from UCV totaling \$49,000 and \$146,000 during the three month and nine month periods ended March 31, 2003, respectively. In the same periods in 2004, the Company only received management fees from the replacement properties totalling \$15,000 and \$33,000 respectively.

Other revenues, which primarily consisted of management fees earned from a third party, decreased \$118,000 in the nine month period due to the sale of the



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

property being managed in October 2002. This was partially offset by a non-recurring increase in miscellaneous income in the three months ended March 31, 2004 of \$17,000.

Unallocated selling, general and administrative expenses increased by \$98,000 in the nine-month period primarily due to increases in audit fees and legal expenses. There was not a meaningful change to this expense category in the third quarter.

The amount of corporate expenses allocated to the Golf segment primarily increased due to an increase in the percentage of expenses allocable to golf. This is the result of the discontinuance of the bowling segment in May 2003 and the reduction in property management services performed for UCV and others during the three months ended September 30, 2003.

14

Interest expense decreased primarily due to repayment of the short term debt in April 2003.

The increase in gain on sale primarily relates to the \$60,532 received in November 2003 related to amounts due on the sale of the Company's investment in All Seasons Inns in a prior year. The Company had recorded a valuation allowance for the amount due at the time of sale.

### Discontinued Operations:

-----  
As discussed in Footnote 7 of Notes to Consolidated Condensed Financial Statements, the Company has classified its operations in the bowling and real estate development segments as discontinued operations.

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

-----  
The Company is exposed to market risk primarily due to fluctuations in interest rates. However, the Company does not consider this interest rate market risk exposure to be material to its financial condition or results of operations.

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

### ITEM 4. CONTROLS AND PROCEDURES

-----  
An evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities and Exchange Act of 1934 (the "Exchange Act") as of March 31, 2004. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal

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

control over financial reporting.

15

### PART II OTHER INFORMATION

#### ITEM 1. Legal Proceedings

As of March 31, 2004, 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, 2003, except the following:

A lawsuit was filed on January 10, 2003 in the United States District Court in the Southern District of California by Masterson Marketing, Inc. (Masterson) against Penley Sports, LLC. Masterson's lawsuit originally asserted claims for copyright infringement, breach of contract, breach of fiduciary duty, and sought compensatory damages, punitive damages, statutory damages, and attorney fees. The Company filed a motion to dismiss all claims. In response to that motion, Masterson dropped all claims except for the claims of copyright infringement and breach of contract. Masterson also dropped all prayers for punitive damages, statutory damages, and attorney fees. It is not possible at this time to predict the outcome of this litigation. We intend to vigorously defend against these claims.

#### 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:

- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Chief Financial Officer
- 32.1 Certification of Chief Executive Officer pursuant to Sec. 906
- 32.2 Certification of Chief Financial Officer pursuant to Sec. 906

(b) Reports on Form 8-K: NONE

16

SIGNATURES

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

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.

SPORTS ARENAS, INC.

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

Harold S. Elkan, President and Director

Date: May 17, 2004  
-----

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

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

Date: May 17, 2004  
-----