

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

SPORTS ARENAS INC
Form 10-Q
February 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 December 31, 2003

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 January 31, 2004 was 27,250,000 shares.

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

SPORTS ARENAS, INC.

FORM 10-Q

QUARTER ENDED DECEMBER 31, 2003

INDEX

Part I - Financial Information:

Item 1.- Consolidated Condensed Financial Statements:

Unaudited Balance Sheets as of December 31, 2003 and June 30, 2003	1-2
Unaudited Statements of Operations for the Three Months Ended December 31, 2003 and 2002	3
Unaudited Statements of Operations for the Six Months Ended December 31, 2003 and 2002	4
Unaudited Statements of Cash Flows for the Six Months Ended December 31, 2003 and 2002	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)

December 31, 2003	June 30, 2003
-----	-----

Current assets:

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Cash and cash equivalents	\$ 34,531	\$ 365,674
Other receivable-affiliate	--	350,000
Receivables	188,885	402,875
Inventories	843,212	641,127
Prepaid expenses	62,769	34,958
	-----	-----
Total current assets	1,129,397	1,794,634
	-----	-----
Property and equipment, at cost:		
Equipment.....	1,997,600	1,889,395
Less accumulated depreciation and amortization	(1,065,571)	(1,052,740)
	-----	-----
Net property and equipment	932,029	836,655
	-----	-----
Other assets:		
Investments	4,574,060	5,344,007
Deferred tax assets	5,177,000	4,661,000
Other	95,671	95,671
	-----	-----
	9,846,731	10,100,678
	-----	-----
	\$11,908,157	\$12,731,967
	=====	=====

1

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

LIABILITIES AND SHAREHOLDERS' EQUITY
(Unaudited)

	December 31, 2003	June 30, 2003
	-----	-----
Current liabilities:		
Current portion of long-term debt	\$ 19,669	\$ 5,771
Accounts payable	356,242	441,434
Accrued payroll and related expenses	289,403	282,080
Deferred income taxes	1,026,000	--
Other liabilities	3,639	3,796
	-----	-----
Total current liabilities	1,694,953	733,081
	-----	-----
Long-term debt, excluding current portion	76,376	--
	-----	-----

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Deferred income taxes	9,488,000	10,514,000
	-----	-----
Minority interest in consolidated subsidiary	402,839	431,839
	-----	-----
Shareholders' equity:		
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	534,932	1,341,990
	-----	-----
	2,537,481	3,344,539
Less note receivable from shareholder	(2,291,492)	(2,291,492)
	-----	-----
Total shareholders' equity.....	245,989	1,053,047
	-----	-----
Commitments and contingencies (Note 6)		
	\$11,908,157	\$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 DECEMBER 31, 2003 AND 2002
(Unaudited)

	2003	2002
	-----	-----
Revenues:		
Golf	\$ 372,000	\$ 496,677
Rental	23,156	22,311
Other	12,698	114,224
Other-related party	14,931	48,645
	-----	-----
	422,785	681,857
	-----	-----
Costs and expenses:		
Golf	623,429	498,880
Rental	19,200	18,700
Selling, general, and administrative	532,214	523,046
Depreciation and amortization	50,915	59,720
	-----	-----
	1,225,758	1,100,346

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	-----	-----
Loss from operations	(802,973)	(418,489)
	-----	-----
Other income (charges):		
Investment income- related party	11,529	7,214
Interest expense and amortization of finance costs	(372)	(11,874)
Gain on sale	78,533	--
Equity in income of investees	67,438	27,007
	-----	-----
	157,128	22,347
	-----	-----
Loss from continuing operations before income taxes..	(645,845)	(396,142)
Income tax benefit	257,000	--
	-----	-----
Loss from continuing operations	(388,845)	(396,142)
Loss from discontinued operations	--	(42,747)
	-----	-----
Net loss	\$ (388,845)	\$ (438,889)
	=====	=====
Per common share (based on weighted average shares outstanding) basic and diluted:		
Loss from continuing operations	(\$0.01)	(\$0.01)
Discontinued operations	--	--
	-----	-----
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
SIX MONTHS ENDED DECEMBER 31, 2003 AND 2002
(Unaudited)

	2003	2002
	-----	-----
Revenues:		
Golf	\$ 981,525	\$ 1,131,751
Rental	42,491	40,287
Other	21,329	156,052
Other-related party	18,335	96,869
	-----	-----
	1,063,680	1,424,959
	-----	-----
Costs and expenses:		
Golf	1,256,690	1,145,141
Rental	38,400	37,400
Selling, general, and administrative	1,180,791	1,016,538
Depreciation and amortization	98,207	119,440

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	-----	-----
	2,574,088	2,318,519
	-----	-----
Loss from operations	(1,510,408)	(893,560)
	-----	-----
Other income (charges):		
Investment income:		
Related party	15,000	16,284
Other	297	--
Interest expense and amortization of finance costs	(706)	(45,522)
Gain on sale	78,533	--
Equity in income of investees	94,226	67,201
	-----	-----
	187,350	37,963
	-----	-----
Loss from continuing operations before income taxes and change in accounting principle	(1,323,058)	(855,597)
Income tax benefit	516,000	--
	-----	-----
Loss from continuing operations	(807,058)	(855,597)
Loss from discontinued operations	--	(108,269)
Cumulative effect of change in accounting principle .	--	37,675
	-----	-----
Net loss	\$ (807,058)	\$ (926,191)
	=====	=====
Per common share (based on weighted average shares outstanding) basic and diluted:		
Loss from continuing operations	(\$0.03)	(\$0.03)
Discontinued operations	--	--
Cumulative effect of change in accounting principle	--	--
	-----	-----
Net loss	(\$0.03)	(\$0.03)
	=====	=====

See accompanying notes to consolidated condensed financial statements.

SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED DECEMBER 31, 2003 AND 2002
(Unaudited)

	2003	2002
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (807,058)	\$ (926,191)
Less loss from discontinued operations	--	108,269
	-----	-----
Loss from continuing operations	(807,058)	(817,922)
Adjustments to reconcile net loss to the net cash used by operating activities:		

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Depreciation and amortization	98,207	119,440
Equity in income of investees	(94,226)	(67,201)
Gain on sales	(78,533)	--
Deferred income	--	24,000
Provision for deferred income taxes	(516,000)	--
Change in accounting principle	--	(37,675)
Changes in assets and liabilities:		
Decrease in receivables	563,990	120,564
(Increase) decrease in inventories	(202,085)	62,885
(Increase) decrease in prepaid expenses	(27,811)	20,003
Increase (decrease) in accounts payable	(85,192)	105,096
Increase in accrued expenses	7,166	100,130
Other	--	18,642
	-----	-----
Net cash used by continuing operations	(1,141,542)	(352,038)
Net cash used by discontinued operations	--	(87,286)
	-----	-----
Net cash used by operating activities	(1,141,542)	(439,324)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(193,581)	(4,310)
Distribution to holder of minority interest	(29,000)	--
Proceeds from sale of assets	78,533	--
Distributions from investees	864,173	417,100
	-----	-----
Net cash provided by investing activities	720,125	412,790
	-----	-----
Cash flows from financing activities:		
Scheduled principal payments on long-term debt ...	(6,204)	(4,179)
Proceeds from long-term debt	96,478	--
	-----	-----
Net cash provided (used) by financing activities ...	90,274	(4,179)
	-----	-----
Net decrease in cash and cash equivalents	(331,143)	(30,713)
Cash and cash equivalents, beginning of period	365,674	39,345
	-----	-----
Cash and cash equivalents, end of period	\$ 34,531	\$ 8,632
	=====	=====
Supplemental Disclosure of Non-Cash Financing Activities:		
Reclassification of principal payments on		
short-term debt to accrued interest	\$ --	\$ 280,631
	=====	=====
Reclassification of non-current deferred tax		
liability to current portion	\$ 1,026,000	\$ --
	=====	=====

See accompanying notes to consolidated condensed financial statements.

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

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 December 31, 2003 and 2002, are not necessarily indicative of operations for the entire year.

3. Investments:

Investments consist of the following:

	December 31, 2003	June 30, 2003
	-----	-----
UCV, L.P.	\$ 4,565,233	\$ 5,277,007
Vail Ranch Limited Partnership	8,827	67,000
	-----	-----
Total	\$ 4,574,060	\$ 5,344,007
	=====	=====

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

	Six Months		Three Months	
	2003	2002	2003	2002
	-----	-----	-----	-----
UCV, L.P.	\$ 94,226	\$ 67,201	\$ 67,438	\$ 27,007
	=====	=====	=====	=====

The following is a summary of distributions received from investees:

	2003	2002
	-----	-----
UCV, L.P.	\$806,000	\$417,100
Vail Ranch Limited Partnership	58,173	--
	-----	-----
	\$864,173	\$417,100
	=====	=====

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 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,

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

2003 annual report on Form 10-K).

6

In November 2003 the Company received \$60,532 related to amounts due on the 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.

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
SIX MONTHS ENDED DECEMBER 31, 2003				
Revenues	\$ 42,491	\$ 981,525	\$ 39,664	\$ 1,063,68
Depreciation and amortization	--	84,899	13,308	98,20
Interest expense	--	--	706	70
Equity in income of investee	94,226	--	--	94,22
Gain on sale	--	--	78,533	78,53
Segment profit (loss)	98,317	(1,236,991)	(199,681)	(1,338,35
Investment income				15,29
Loss from continuing operations before taxes.....				(1,323,05
Significant non-cash items	(94,226)	--	--	(94,22
SIX MONTHS ENDED DECEMBER 31, 2002				
Revenues	\$ 40,287	\$ 1,131,751	\$ 252,921	\$ 1,424,95
Depreciation and amortization	26,710	83,514	9,216	119,44

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Interest expense	--	--	45,522	45,522
Equity in income of investee	67,201	--	--	67,201
Segment profit (loss)	43,378	(797,913)	(117,346)	(871,880)
Investment income				16,280
Loss from continuing operations before taxes.....				(855,599)
Significant non-cash items	(67,201)	--	--	(67,201)

THREE MONTHS ENDED DECEMBER 31, 2003

Revenues	\$ 23,156	\$ 372,000	\$ 27,629	\$ 422,780
Depreciation and amortization	--	43,508	7,407	50,915
Interest expense	--	--	372	372
Gain on sale	--	--	78,533	78,533
Equity in income of investee	67,438	--	--	67,438
Segment profit (loss)	71,394	(706,860)	(21,908)	(657,364)
Investment income				11,520
Loss from continuing operations before taxes.....				(645,844)
Significant non-cash items	(67,438)	--	--	(67,438)

THREE MONTHS ENDED DECEMBER 31, 2002

Revenues	\$ 22,311	\$ 496,677	\$ 162,869	\$ 681,855
Depreciation and amortization	13,355	41,757	4,608	59,720
Interest expense	--	--	11,874	11,874
Equity in income of investee	27,007	--	--	27,007
Segment profit (loss)	17,263	(426,041)	5,422	(403,355)
Investment income				7,210
Loss from continuing operations before taxes.....				(396,144)
Significant non-cash items	(27,007)	--	--	(27,007)

8

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 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 obtaining additional investors in its subsidiary, Penley Sports, or increases in the sales volume of Penley Sports. The consolidated 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.

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 loss from the discontinued business segments for the periods ended December 31:

Three Months		Six Months	
2003	2002	2003	2002

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	-----	-----	-----	-----
Bowling	\$ --	\$ (33,747)	\$ --	\$ (108,269)
Real estate development .	--	(9,000)	--	--
	-----	-----	-----	-----
	\$ --	\$ (42,747)	\$ --	\$ (108,269)
	=====	=====	=====	=====

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 December 31, 2003) 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.

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.

Management estimates positive cash flow of \$100,000 to \$200,000 in total for the remaining two quarters of 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 \$1,026,000 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 \$700,000 of distributions

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

from UCV in the third quarter of which \$129,000 was received in January and February 2004. The \$700,000 of 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. The Company received distributions from VRLP related to these transactions of \$58,173 in December 2003 and \$59,975 in January 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. The liability to the minority interest stated in the balance sheet is \$402,839 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 December 31, 2003) 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. 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 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. However, management believes it will be able to meet its financial obligations for the next twelve months.

The Company has working capital deficit of \$565,556 at December 31, 2003, which is a \$1,627,109 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 \$1,026,000 from a non-current deferred tax liability to a current deferred tax liability and cash used by operating activities for the six

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

months ended December 31, 2003. 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 provided (used) before changes in assets and liabilities, segregated by business segments:

	2003	2002	Change
	-----	-----	-----
Rental	\$ 4,000	3,000	1,000
Golf	(1,152,000)	(714,000)	(438,000)
General corporate expense and other	(250,000)	(68,000)	(182,000)
	-----	-----	-----
Cash used by continuing operations	(1,398,000)	(779,000)	(619,000)
Discontinued operations:			
Bowling	--	(96,000)	96,000
Real estate development .	--	--	--
Capital expenditures.....	(194,000)	(4,000)	(190,000)
Principal payments on long-term debt	(6,000)	(4,000)	(2,000)
	-----	-----	-----
Cash used	(1,598,000)	(883,000)	(715,000)
	=====	=====	=====
Distributions received from investees	864,000	417,000	447,000
	=====	=====	=====

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 six month periods ended December 31, 2003 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 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

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

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.

12

RESULTS OF OPERATIONS

The following is a summary of the changes in the results of operations of the six and three-month periods ended December 31, 2003 to the same period in 2002 and a discussion of the significant changes:

SIX MONTHS ENDED DECEMBER 31, 2003 VERSUS 2002

Real Estate Operation	Golf	Unallocated And Other	Total
--------------------------	------	--------------------------	-------

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Revenues	\$	2,204	\$	(150,226)	\$	(213,257)	\$	(361,279)
Costs		1,000		111,549		--		112,549
SG&A-direct		--		(1,082)		109,266		108,184
SG&A-allocated		--		177,000		(120,931)		56,069
Depreciation and amortization		(26,710)		1,385		4,092		(21,233)
Interest expense		--		--		(44,816)		(44,816)
Gain from sale		--		--		78,533		78,533
Equity in investees		27,025		--		--		27,025
Segment profit (loss)		54,939		(439,078)		(82,335)		(466,474)
Investment income								(987)
Income tax benefit								516,000
Income from continuing operations								48,539
Discontinued operations								108,269
Change in accounting principle								(37,675)
Net income (loss)								119,133

THREE MONTHS ENDED DECEMBER 31, 2003 VERSUS 2002

	Real Estate Operation	Golf	Unallocated And Other	Total
Revenues	\$ 845	\$ (124,677)	\$ (135,240)	\$ (259,072)
Costs	500	124,549	--	125,049
SG&A-direct	--	(62,158)	40,257	(21,901)
SG&A-allocated	--	92,000	(60,931)	31,069
Depreciation and amortization	(13,355)	1,751	2,799	(8,805)
Interest expense	--	--	(11,502)	(11,502)
Gain from sale	--	--	78,533	78,533
Equity in investees	40,431	--	--	40,431
Segment profit (loss)	54,131	(280,819)	(27,330)	(254,018)
Investment income				4,315
Income tax benefit				257,000
Income from continuing operations				7,297
Discontinued operations				42,747
Change in accounting principle				--
Net income (loss)				50,044

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 six months ended December 31, 2003 included the operations of these properties since their acquisition.

GOLF OPERATIONS:

Golf revenues declined in the three and six month periods primarily due to declines 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

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

2003. There were also two manufacturers that were no longer in business in 2003. The following is a breakdown of the percentage of sales by customer category:

	Six Months		Three Months	
	2003	2002	2003	2002
Golf equipment distributors .	53%	34%	54%	34%
Small golf club manufacturers	17%	30%	19%	32%
Golf shops	26%	29%	22%	30%
Other	4%	7%	5%	4%

Operating expenses of the golf segment consisted of the following in 2003 and 2002:

	Six Months		Three Months	
	2003	2002	2003	2002
Costs of goods sold and manufacturing overhead	\$1,100,000	\$1,048,000	\$ 519,000	\$ 450,000
Research & development	157,000	97,000	105,000	49,000
Total golf costs	1,257,000	1,145,000	624,000	499,000
Marketing & promotion	447,000	442,000	204,000	264,000
Administrative-direct	129,000	135,000	54,000	56,000
Total SG&A-direct	576,000	577,000	258,000	320,000
Allocated corporate costs	301,000	124,000	154,000	62,000

Total golf costs increased in the three and six 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. Marketing and promotion expenses decreased in the three month period due to a decrease in player sponsorship costs. This decrease was offset in the six month period by an increase in advertising costs in the first quarter.

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 \$48,000 and \$97,000 during the three month and six month periods ended December 31, 2002, respectively. In the same periods in 2003, the Company only received management fees from the replacement properties totalling \$15,000 and \$18,000 respectively.

Other revenues, which primarily consisted of management fees earned from a third party, decreased \$102,000 and \$113,000 in the three and six month periods, respectively, due to the sale of the property being managed in October 2002.

Unallocated selling, general and administrative expenses increased by \$40,000 and \$109,000 in the three and six month periods, respectively, primarily due to increases in audit fees and legal expenses.

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.

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 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 December 31, 2003. 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.

PART II
OTHER INFORMATION

ITEM 1. Legal Proceedings

As of December 31, 2003, 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

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

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

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: February 17, 2004

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

By: /s/ Steven R. Whitman

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

Date: February 17, 2004
