

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

SPORTS ARENAS INC
Form 10-Q
November 14, 2003

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, 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 October 31, 2003 was 27,250,000 shares.

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

SPORTS ARENAS, INC.

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2003

INDEX

Part I - Financial Information:

Item 1.- Consolidated Condensed Financial Statements:

Unaudited Balance Sheets as of September 30, 2003 and June 30, 2003	1-2
Unaudited Statements of Operations for the Three Months Ended September 30, 2003 and 2002	3
Unaudited Statements of Cash Flows for the Three Months Ended September 30, 2003 and 2002.....	4
Notes to Financial Statements.....	5-6
Item 2.- Management's Discussion and Analysis of Financial Condition and Results of Operations.....	7-9
Item 3.- Quantitative and Qualitative Disclosures about Market Risk...	9
Item 4.- Controls and Procedures	9
Part II - Other Information.....	10
Exhibits and reports on Form 8-K	10
Signatures.....	11

SPORTS ARENAS, INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS (Unaudited)

	September 30, 2003	June 30, 2003
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 47,438	\$ 365,674
Other receivable-affiliate	--	350,000
Receivables	230,861	402,875

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Inventories	779,301	641,127
Prepaid expenses	50,305	34,958
	-----	-----
Total current assets	1,107,905	1,794,634
	-----	-----
Property and equipment, at cost:		
Equipment.....	1,986,505	1,889,395
Less accumulated depreciation and amortization	(1,100,032)	(1,052,740)
	-----	-----
Net property and equipment	886,473	836,655
	-----	-----
Other assets:		
Investments	5,370,795	5,344,007
Deferred tax assets	4,920,000	4,661,000
Other	95,671	95,671
	-----	-----
	10,386,466	10,100,678
	-----	-----
	\$12,380,844	\$12,731,967
	=====	=====

1

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

LIABILITIES AND SHAREHOLDERS' EQUITY
(Unaudited)

	September 30, 2003	June 30, 2003
	-----	-----
Current liabilities:		
Current portion of long-term debt	\$ 9,968	\$ 5,771
Accounts payable	465,384	441,434
Accrued payroll and related expenses	299,278	282,080
Other liabilities	702	3,796
	-----	-----
Total current liabilities	775,332	733,081
	-----	-----
Long-term debt, excluding current portion	24,839	--
	-----	-----
Deferred income taxes	10,514,000	10,514,000
	-----	-----
Minority interest in consolidated subsidiary	431,839	431,839

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	-----	-----
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	923,777	1,341,990
	-----	-----
	2,926,326	3,344,539
Less note receivable from shareholder	(2,291,492)	(2,291,492)
	-----	-----
 Total shareholders' equity.....	 634,834	 1,053,047
	-----	-----
 Commitments and contingencies (Note 6)		
	 \$12,380,844	 \$12,731,967
	=====	=====

See accompanying notes to consolidated condensed financial statements.

SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(Unaudited)

	2003	2002
	-----	-----
Revenues:		
Golf	\$ 609,525	\$ 635,074
Rental	19,335	17,976
Other	8,631	41,828
Other-related party	3,404	48,224
	-----	-----
	640,895	743,102
	-----	-----
Costs and expenses:		
Golf	633,261	646,261
Rental	19,200	18,700
Selling, general, and administrative	648,577	493,492
Depreciation and amortization	47,292	59,720
	-----	-----
	1,348,330	1,218,173
	-----	-----
 Loss from operations	 (707,435)	 (475,071)
	-----	-----

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Other income (charges):		
Investment income:		
Related party	3,471	9,070
Other	297	--
Interest expense and amortization of finance costs	(334)	(33,648)
Equity in income of investees	26,788	40,194
	-----	-----
	30,222	15,616
	-----	-----
Loss from continuing operations before income taxes and change in accounting principle		
	(677,213)	(459,455)
Income tax benefit	259,000	--
	-----	-----
Loss from continuing operations	(418,213)	(459,455)
Loss from discontinued operations	--	(65,522)
Cumulative effect of change in accounting principle .	--	37,675
	-----	-----
Net loss	\$ (418,213)	\$ (487,302)
	=====	=====
Per common share (based on weighted average shares outstanding) basic and diluted:		
Loss from continuing operations	(\$0.02)	(\$0.02)
Discontinued operations	--	--
Cumulative effect of change in accounting principle	--	--
	-----	-----
Net loss	(\$0.02)	(\$0.02)
	=====	=====

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, 2003 AND 2002
(Unaudited)

	2003	2002
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (418,213)	\$ (487,302)
Less loss from discontinued operations	--	65,522
	-----	-----
Loss from continuing operations	(418,213)	(421,780)
Adjustments to reconcile net loss to the net cash used by operating activities:		
Depreciation and amortization	47,292	59,720
Equity in income of investees	(26,788)	(40,194)
Deferred income	--	12,000
Provision for deferred income taxes	(259,000)	--
Change in accounting principle	--	(37,675)
Changes in assets and liabilities:		
Decrease in receivables	522,014	77,457

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

(Increase) decrease in inventories	(138,174)	13,736
(Increase) decrease in prepaid expenses	(15,347)	10,378
Increase in accounts payable	23,950	58,360
Increase in accrued expenses	14,104	79,397
Other	--	9,321
	-----	-----
Net cash used by continuing operations	(250,162)	(179,280)
Net cash used by discontinued operations	--	(46,530)
	-----	-----
Net cash used by operating activities	(250,162)	(225,810)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(97,110)	--
Distributions from investees	--	242,000
	-----	-----
Net cash provided (used) by investing activities ...	(97,110)	242,000
	-----	-----
Cash flows from financing activities:		
Scheduled principal payments on long-term debt ...	(2,835)	(2,521)
Proceeds from long-term debt	31,871	--
	-----	-----
Net cash provided (used) by financing activities ...	29,036	(2,521)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(318,236)	13,669
Cash and cash equivalents, beginning of period	365,674	39,345
	-----	-----
Cash and cash equivalents, end of period	\$ 47,438	\$ 53,014
	=====	=====
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.

SPORTS ARENAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
SEPTEMBER 30, 2003 AND 2002 (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. 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.

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

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 September 30, 2003 and 2002, are not necessarily indicative of operations for the entire year.

3. Investments:

Investments consist of the following:

	September 30, 2003	June 30, 2003
	-----	-----
UCV, L.P.	\$ 5,303,795	\$ 5,277,007
Vail Ranch Limited Partnership	67,000	67,000
	-----	-----
Total	\$ 5,370,795	\$ 5,344,007
	=====	=====

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

	2003	2002
	-----	-----
UCV, L.P.	\$ 26,788	\$ 40,194
	=====	=====

Classified as discontinued operations:

Vail Ranch Limited Partnership	\$ --	\$ 9,000
	=====	=====

The following is a summary of distributions received from investees:

	2003	2002
	-----	-----
UCV, L.P.	\$ --	\$242,000
Vail Ranch Limited Partnership	--	--
	-----	-----
	\$ --	\$242,000
	=====	=====

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 (loss) 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 September 30, 2003 was \$40,194 (see footnote 15 to the Company's June 30, 2003 annual report on Form 10-K).

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 claims copyright infringement, breach of contract, breach of fiduciary duty, constructive fraud and conversion. Masterson is seeking damages in excess of \$450,000. The Company filed a motion to dismiss all claims. Masterson dropped all claims except for the claims of copyright infringement and

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

breach of contract. The balance of the motion to dismiss is waiting for a court decision. It is not possible at this time to predict the outcome of this litigation. We intend to vigorously defend against these claims.

5

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.

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

	Real Estate Operation	Golf	Unallocated And Other	Totals
	-----	-----	-----	-----
THREE MONTHS ENDED SEPTEMBER 30, 2003				

Revenues	\$ 19,335	\$ 609,525	\$ 12,035	\$ 640,89
Depreciation and amortization	--	41,391	5,901	47,29
Interest expense	--	--	334	33
Equity in income of investee	26,788	--	--	26,78
Segment profit (loss)	26,923	(530,131)	(177,773)	(680,98
Investment income				3,76
Loss from continuing operations before taxes.....				(677,21
Significant non-cash items	(26,788)	--	--	(26,78
THREE MONTHS ENDED SEPTEMBER 30, 2002				

Revenues	\$ 17,976	\$ 635,074	\$ 90,052	\$ 743,10
Depreciation and amortization	13,355	41,757	4,608	59,72
Interest expense	1,536	--	32,112	33,64
Equity in income of investee	40,194	--	--	40,19
Segment profit (loss)	24,579	(371,872)	(121,232)	(468,52
Investment income				9,07
Loss from continuing operations before taxes.....				(459,45
Significant non-cash items	(40,194)	--	--	(40,19

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 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:

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

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:

	2003	2002
	-----	-----
Bowling	\$ --	\$ (74,522)
Real estate development	--	9,000
	-----	-----
	\$ --	\$ (65,522)
	=====	=====

8. Subsequent events:

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 September 30, 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. 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.

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 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 three 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.

The Company estimates it will receive approximately \$1,100,000 of distributions from UCV in the second quarter of which \$290,000 was received in October 2003. This represents the remainder of funds to be distributed by UCV to the Company from the sales proceeds of UCV's apartment project.

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

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 is entitled to receive one-half of the sales proceeds from the sale of a remaining parcel undeveloped land as well as the release of \$100,000 that was held back from the sales proceeds in February 2003. The Company is obligated to pay approximately one-half of these proceeds to its minority partner. The liability to the minority interest stated in the balance sheet is \$431,839 but is likely to be settled for a lesser amount based on the distributions received from VRLP.

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 of \$332,573 at September 30, 2003, which is a \$728,980 decrease from the working capital of \$1,061,553 at June 30, 2003. The decrease in working capital is primarily attributable to the cash used by operating activities for the three months ended September 30, 2003. The following is a schedule of the cash provided (used) before changes in assets and liabilities, segregated by business segments:

	2003	2002	Change
	-----	-----	-----
Rental	\$ --	(2,000)	2,000
Golf	(489,000)	(330,000)	(159,000)
General corporate expense and other	(168,000)	(96,000)	(72,000)
	-----	-----	-----
Cash used by continuing operations	(657,000)	(428,000)	(229,000)
Discontinued operations:			
Bowling	--	(68,000)	68,000
Real estate development .	--	--	--
Capital expenditures.....	(97,000)	--	(97,000)
Principal payments on long-term debt	(3,000)	(3,000)	--
	-----	-----	-----
Cash used	(757,000)	(499,000)	(258,000)
	=====	=====	=====
Distributions received from investees	--	242,000	(242,000)
	=====	=====	=====

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

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

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 months ended September 30, 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.

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 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.

"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, 2003 to the same period in 2002 and a discussion of the significant changes:

Real Estate

Unallocated

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

	Operation	Golf	And Other	Total
	-----	-----	-----	-----
Revenues	\$ 1,359	\$ (25,549)	\$ (78,017)	\$ (102,207)
Costs	500	(13,000)	--	(12,500)
SG&A-direct	--	(61,076)	69,009	130,085
SG&A-allocated	--	85,000	(60,000)	25,000
Depreciation and amortization	(13,355)	(366)	1,293	(12,428)
Interest expense	(1,536)	--	(31,778)	(33,314)
Equity in investees	(13,406)	--	--	(13,406)
Segment profit (loss)	2,344	(158,259)	(56,541)	(212,456)
Investment income				(5,302)
Income tax expense				259,000
Income from continuing operations				41,242
Discontinued operations				65,522
Change in accounting principle				(37,675)
Net income (loss)				69,089

8

RENTAL 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 for the three months ended September 30, 2002 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 months ended September 30, 2003 included the operations of these three properties since their acquisition.

GOLF OPERATIONS:

There was a slight decline in Golf revenues due to a large OEM order shipped in July 2002 for which there was no comparable sales activity in 2003. The following is a breakdown of the percentage of sales by customer category:

	2003	2002
	----	----
Golf equipment distributors .	52%	35%
Small golf club manufacturers	17%	28%
Golf shops	29%	29%
Other	2%	8%

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

	2002	2001	Decrease
	-----	-----	-----
Costs of sales and manufacturing overhead .	\$ 580,000	\$ 598,000	\$ (18,000)
Research and development ..	53,000	48,000	5,000
Total golf costs	633,000	646,000	(13,000)
Marketing and promotion ...	243,000	178,000	65,000
Administrative costs- direct	75,000	79,000	(4,000)
Total SG&A-direct	318,000	257,000	61,000

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

There was not a significant change to total golf costs . Marketing and promotion expenses increased primarily due to an increase in advertising expenses.

OTHER

Other revenues-related party decreased due to UCV's sale of its apartment project on April 1, 2003. During the three months ended September 30, 2002 the Company had received management fees and development fees from UCV totaling \$48,000. Other revenues, which primarily consisted of management fees earned from a third party, decreased \$33,197 due to the sale of the property being managed in October 2002.

Unallocated selling, general and administrative expenses increased by \$69,009 primarily due to the timing of the expenses for the Company's annual audit. In 2002 these services were primarily performed in October 2002 whereas in 2003 these services were primarily completed in September 2003.

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.

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.

9

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 September 30, 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.

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

PART II
OTHER INFORMATION

ITEM 1. Legal Proceedings

As of September 30, 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.

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

10

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

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Date: November 14, 2003

By:/s/ Steven R. Whitman

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

Date: November 14, 2003
