

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

SPORTS ARENAS INC  
Form 10-Q  
April 07, 2005

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, 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 March 31, 2005 was 5,441,734 shares.

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

SPORTS ARENAS, INC.

FORM 10-Q

QUARTER ENDED DECEMBER 31, 2004

INDEX

Part I - Financial Information:

Item 1.- Consolidated Condensed Financial Statements:

Balance Sheets as of December 31, 2004 (unaudited) and June 30, 2004 (audited) .....	1
Unaudited Statements of Operations for the Three Months Ended December 31, 2004 and 2003 .....	2
Unaudited Statements of Operations for the Six Months Ended December 31, 2004 and 2003 .....	3
Unaudited Statements of Cash Flows for the Six Months Ended December 31, 2004 and 2003 .....	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 .....	10
Part II - Other Information.....	10
Exhibits and reports on Form 8-K .....	10
Signatures.....	11

SPORTS ARENAS, INC. AND SUBSIDIARIES  
CONSOLIDATED CONDENSED BALANCE SHEETS

	December 31, 2004	June 30, 2004	
	-----	-----	
	(Unaudited)	Audited	
ASSETS			
Current assets:			
Cash and cash equivalents .....	\$ 7,552	\$ 186,716	
Receivables .....	105,585	275,004	
Inventories .....	263,242	605,843	
Prepaid expenses .....	21,612	27,005	

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Total current assets .....	397,991	1,094,568
Property and equipment, at cost:		
Equipment.....	1,611,332	1,997,600
Less accumulated depreciation and amortization	(1,189,385)	(1,167,688)
Net property and equipment .....	421,947	829,912
Other assets:		
Investment .....	3,519,468	3,797,288
Deferred tax assets .....	2,044,000	1,330,000
Other .....	77,371	77,371
	5,640,839	5,204,659
	\$ 6,460,777	\$ 7,129,139
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

Current liabilities:		
Current portion of long-term debt .....	\$ 18,484	\$ 18,071
Note payable- short term .....	16,000	--
Accounts payable .....	233,484	241,540
Accrued payroll and related expenses .....	285,857	278,286
Accrued income taxes .....	979,000	979,000
Other liabilities .....	78,051	--
Total current liabilities .....	1,610,876	1,516,897
Long-term debt, excluding current portion .....	57,892	67,232
Deferred taxes liabilities .....	5,158,000	5,158,000
Minority interest in consolidated subsidiary .....	15,000	15,000
Commitments and contingencies (Note 4)		
Shareholders' equity (deficit):		
Common stock, \$.01 par value, 50,000,000 shares		
authorized, 10,883,467 issued and outstanding ..	340,521	340,521
Additional paid-in capital .....	2,038,776	2,038,776
Treasury stock .....	(915,176)	(915,176)
Retained deficit .....	(1,845,112)	(1,092,111)
Total shareholders' equity (deficit) .....	(380,991)	372,010
	\$ 6,460,777	\$ 7,129,139
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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

### CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS THREE MONTHS ENDED DECEMBER 31, 2004 AND 2003 (Unaudited)

	2004	2003
	-----	-----
Revenues:		
Other .....	7,336	12,698
Other-related party .....	14,624	14,931
	-----	-----
	21,960	27,629
	-----	-----
Costs and expenses:		
Selling, general, and administrative .....	157,095	120,291
Depreciation and amortization .....	8,319	7,407
	-----	-----
	165,414	127,698
	-----	-----
Loss from operations .....	(143,454)	(100,069)
	-----	-----
Other income (charges):		
Investment income:		
Related party .....	7,502	11,529
Other .....	386	--
Interest expense and amortization of finance costs	(912)	(372)
Equity in income (loss) of investees .....	(24,185)	67,438
Gain on sale .....	--	78,533
	-----	-----
	(17,209)	157,128
	-----	-----
Loss from continuing operations before income taxes..	(160,663)	57,059
Income tax benefit .....	(37,000)	(23,000)
	-----	-----
Income (loss) from continuing operations .....	(197,663)	34,059
	-----	-----
Discontinued operations (Note 7):		
Loss from operations of discontinued segments.....	(748,369)	(702,904)
Income tax benefit .....	298,000	280,000
	-----	-----
Loss on discontinued operations	(450,369)	(422,904)
	-----	-----
Net loss .....	\$ (648,032)	\$ (388,845)
	=====	=====
Per common share (based on weighted average shares outstanding) basic and diluted:		
Income (loss) from continuing operations .....	\$( 0.02)	(\$0.00)
Discontinued operations .....	( 0.04)	( 0.01)
	-----	-----
Net loss .....	(\$0.06)	(\$0.02)
	=====	=====
Weighted average number of shares outstanding .....	10,883,467	27,250,000
	=====	=====

See accompanying notes to consolidated condensed financial statements.

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

2

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

	2004	2003
	-----	-----
Revenues:		
Other .....	15,055	21,329
Other-related party .....	29,379	18,335
	-----	-----
	44,434	39,664
	-----	-----
Costs and expenses:		
Selling, general, and administrative .....	308,581	303,864
Depreciation and amortization .....	18,528	13,308
	-----	-----
	327,109	317,172
	-----	-----
Loss from operations .....	(282,675)	(277,508)
	-----	-----
Other income (charges):		
Investment income:		
Related party .....	16,101	15,000
Other .....	386	297
Interest expense and amortization of finance costs	(1,970)	(706)
Equity in income (loss) of investees .....	(50,820)	94,226
Gain on sale .....	--	78,533
	-----	-----
	(36,303)	187,350
	-----	-----
Loss from continuing operations before income taxes..	(318,978)	(90,158)
Income tax benefit .....	257,000	25,000
	-----	-----
Income (loss) from continuing operations .....	(61,978)	(65,158)
	-----	-----
Discontinued operations (Note 7):		
Loss from operations of discontinued segments.....	(1,148,023)	(1,232,900)
Income tax benefit .....	457,000	491,000
	-----	-----
Loss on discontinued operations	(691,023)	(741,900)
	-----	-----
Net loss .....	\$ (753,001)	\$ (807,058)
	=====	=====
Per common share (based on weighted average shares outstanding) basic and diluted:		
Income (loss) from continuing operations .....	\$( 0.01)	(\$0.00)
Discontinued operations .....	( 0.06)	( 0.03)
	-----	-----
Net loss .....	(\$0.07)	(\$0.03)

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

=====                      =====

Weighted average number of shares outstanding ..... 10,883,467    27,250,000  
=====                      =====

See accompanying notes to consolidated condensed financial statements.

3

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

	2004	2003
	-----	-----
Cash flows from operating activities:		
Loss from continuing operations .....	\$ (61,978)	\$ (65,158)
Adjustments to reconcile net loss to net cash provided used by operating activities:		
Depreciation and amortization .....	18,528	13,308
Equity in (income) loss of investees .....	50,820	(94,226)
Provision for deferred income taxes .....	(257,000)	(305,000)
Gain on sale .....	--	(78,533)
Changes in assets and liabilities:		
Decrease in receivables .....	1,104	371,926
Decrease in prepaid expenses .....	1,260	3,708
Increase (decrease) in accounts payable .....	61,709	(20,004)
Decrease in accrued expenses .....	27,338	1,006
Other .....	1,967	--
	-----	-----
Net cash used by operating activities.....	(156,252)	(172,973)
	-----	-----
Cash flows from investing activities:		
Capital expenditures .....	--	(193,581)
Distributions from investees .....	227,000	864,173
Payments to minority interest .....	--	(29,000)
Proceeds from sale .....	--	78,533
	-----	-----
Net cash provided (used) by investing activities ...	227,000	720,125
Net cash used by discontinued operations .....	(256,985)	(968,569)
	-----	-----
Net cash used by investing activities .....	(29,985)	(248,444)
	-----	-----
Cash flows from financing activities:		
Scheduled principal payments on long-term debt ...	(8,927)	(6,204)
Proceeds from short-term debt .....	16,000	--
Proceeds from long-term debt .....	--	96,478
	-----	-----
Net cash provided (used) by financing activities ...	7,073	90,274
	-----	-----
Net decrease in cash and cash equivalents .....	(179,164)	(331,143)
Cash and cash equivalents, beginning of period .....	186,716	365,674
	-----	-----
Cash and cash equivalents, end of period .....	\$ 7,552	\$ 34,531
	=====	=====

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

See accompanying notes to consolidated condensed financial statements.

4

## SPORTS ARENAS, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS DECEMBER 31, 2004 AND 2003 (Unaudited)

### 1. Basis of Presentation:

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 January 3, 2005 for the year ended June 30, 2004.

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

### 2. 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.

### 3. Investment:

The Company's investment consists of a 35 percent beneficial interest in UCV, L.P. (UCV) The following is summarized results of operations of UCV for the periods ended December 31, 2004 and 2003:

	2004	2003
	-----	-----
Revenues .....	\$1,942,655	\$ 1,326,554
Operating and general and administrative costs.....	(578,568)	(293,889)
Depreciation .....	(565,842)	(300,771)
Interest and amortization of loan costs .....	(943,445)	(523,083)
	-----	-----
Net income (loss) .....	\$ (145,200)	\$ 208,811
	=====	=====

UCV is the sole member of three California limited liability companies that each purchased property in 2003 as part of a "like-kind exchange" transaction. 760, LLC purchased a property with 50,667 square feet of retail and office space for approximately \$9,500,000. 939 LLC purchased a property with 23,567 square feet of retail and office space for approximately \$5,000,000. UCV Media Tech Center, LLC purchased a property

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

with 187,534 square feet of office and industrial space for approximately \$28,670,000. Effective February 28, 2005, the Company's partners in UCV accepted the distribution of all of the ownership of UCV Media Tech Center, LLC in full satisfaction of their rights title and interest in UCV. As a result, the Company became the beneficial owner of 100 percent of UCV.

#### 4. Contingencies:

A lawsuit was filed on January 10, 2003 in the United States District Court for 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 and 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 those for 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:

As a result of the Company adopting a plan of disposition for the sale of Penley Sports, LLC and reclassifying this activity to discontinued operations, the Company now principally only operates in one business segment, commercial real estate rental, through its investee, UCV. Other revenues, which are not part of an identified segment, consist primarily of property management fees.

5

#### 6. Liquidity

The accompanying consolidated condensed financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses 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 selling the operations of its subsidiary, Penley Sports, and obtaining funds from additional financing of the properties owned by UCV and its subsidiaries. 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:

On September 16, 2004 the Company committed to a plan of disposal of the graphite golf club shaft operation owned by Penley Sports, LLC (Penley). The Company had been in negotiations to sell Penley to the former owner, Carter Penley. However, those negotiations ceased on February 1, 2005. Carter Penley had funded cash flow deficits from November 1, 2004 until February 1, 2005. Based on a previous verbal agreement with Carter Penley, the Company will not be required to repay the advances. The Company is now in negotiation to sell Penley with another party. While the Company had been in negotiations with Carter Penley, the Company had estimated that the sales proceeds from that sale, if consummated, would provide for the Company to recover the carrying value of the Penley assets. The Company has reassessed the recoverability of the Penley assets based on the current negotiations and as of December 31, 2004 recorded a valuation allowance for the impairment of the Penley property and equipment of \$345,000. This



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

amount is classified as part of discontinued operations at December 31, 2004.

As a result of adopting a plan of disposal, the operations related to Penley for both the current period and the prior period, have been restated and recorded as discontinued operations. The operations of Penley included a small sublease of a portion of its leased premises which were included in the real estate operation segment. The following is a summary of the income (loss) from the discontinued business segments:

	Three Months Ended		Six Months Ended	
	2004	2003	2004	2003
<b>GOLF:</b>				
Revenues.....	\$ 259,505	\$ 372,000	\$ 696,091	\$ 981,525
Golf costs .....	(493,062)	(623,429)	(1,067,690)	(1,256,690)
SG&A- direct .....	(104,154)	(257,923)	(188,318)	(575,927)
SG&A- corporate allocation	(66,000)	(154,000)	(201,000)	(301,000)
Depreciation .....	--	(43,508)	(42,470)	(84,899)
Impairment loss .....	(345,000)	--	(345,000)	--
Loss .....	(748,711)	(706,860)	(1,148,387)	(1,236,991)
<b>REAL ESTATE OPERATION:</b>				
Revenues .....	20,342	23,156	40,364	42,491
Rental costs .....	(20,000)	(19,200)	(40,000)	(38,400)
Loss.....	342	3,956	364	4,091
Total loss from discontinued operations .	\$ (748,369)	\$ (702,904)	\$ (1,148,023)	\$ (1,232,900)

The following is a summary of the assets and liabilities related to Penley that were included in the balance sheets as of December 31, 2004 and June 30, 2004:

	December 31	June 30
<b>Assets:</b>		
Trade receivables.....	\$ 96,682	\$ 264,997
Inventories .....	431,242	605,843
Prepaid expenses .....	19,308	23,441
Equipment & leasehold improvements.	1,570,678	1,611,946
Impairment allowance .....	(345,000)	--
Accumulated depreciation .....	(901,804)	(898,635)
Other assets .....	18,252	18,252
<b>Liabilities:</b>		
Accounts payable .....	114,964	184,729
Accrued payroll and related.....	29,191	47,535
Other .....	76,628	--

6

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

#### CONDITION AND RESULTS OF OPERATIONS:

#### LIQUIDITY AND CAPITAL RESOURCES

The independent auditors' report dated November 15, 2004 included in our June

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

30, 2004 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 11 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 11. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty

As noted below, the recurring losses and negative cash flows relate to the Company's golf club shaft manufacturing operations. The Company has not been successful in its efforts to increase sales, reduce manufacturing costs or obtain additional investors for this operation. As a result, on September 16, 2004, the Company committed to a plan of disposal of the graphite golf club shaft operation owned. The Company had been in negotiations to sell Penley to the former owner, Carter Penley. However, those negotiations ceased on February 1, 2005. Carter Penley had funded cash flow deficits from November 1, 2004 until February 1, 2005 and based on a previous verbal agreement with Carter Penley, the Company will not be required to repay the advances. The Company is now in negotiation to sell Penley with another party.

The Company is expecting a \$200,000 to \$250,000 cash flow deficit in the remaining two quarters of the year ending June 30, 2005 from operating activities after estimated distributions from UCV (\$300,000, primarily distributions from real estate operations), estimated capital expenditures (\$3,000) and scheduled principal payments on long-term debt, excluding any estimated payments to be received from the sale of Penley. This analysis does not include the obligation to pay federal and state income taxes totaling \$979,000 that was due in September 2004 related to the taxable income reported from the sale of the apartment project owned by UCV. Management is currently uncertain about how it will obtain the funds to pay these tax liabilities.

Management is currently evaluating other sources of working capital including the proceeds that would become available for distribution to the Company from refinancing the debt related to one of the properties owned by UCV or selling one of the properties owned by UCV. Management has not assessed the likelihood of any other sources of long-term or short-term liquidity. If the Company is not successful in obtaining other sources of working capital this could have a material adverse effect on the Company's ability to continue as a going concern. However, other than the tax liabilities noted above, management believes it will be able to meet its financial obligations for the next twelve months.

The Company has a working capital deficit of \$1,212,885 at December 31, 2004, which is a \$790,556 increase in the working capital deficit of \$422,329 at June 30, 2004. The increase in working capital deficit is primarily attributable to the cash used by operating activities and the cash invested in discontinued operations for the six months ended December 31, 2004.

7

One of the properties owned by UCV is subject to a loan agreement that requires Sports Arenas, Inc. to maintain a minimum net worth of \$1,000,000 and a minimum cash balance of \$100,000. As of June 30, 2004 and December 31, 2004, the Company did not meet the net worth requirement and the Company has not met the minimum cash requirement since September 30, 2004. UCV is in the process of requesting a waiver from the lender regarding this covenant. However, it is uncertain whether the lender will grant a waiver. If UCV is unable to obtain a waiver from the

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

lender, the lender could call the loan due.

UCV is the sole member of three California limited liability companies that each purchased property in 2003 as part of a "like-kind exchange" transaction. 760, LLC purchased a property with 50,667 square feet of retail and office space for approximately \$9,500,000. 939 LLC purchased a property with 23,567 square feet of retail and office space for approximately \$5,000,000. UCV Media Tech Center, LLC purchased a property with 187,534 square feet of office and industrial space for approximately \$28,670,000. Effective February 28, 2005, the Company's partners in UCV accepted the distribution of all of the ownership of UCV Media Tech Center, LLC in full satisfaction of their rights title and interest in UCV. As a result, the Company became the beneficial owner of 100 percent of UCV.

### CRITICAL ACCOUNTING POLICIES

-----

We prepared the consolidated condensed financial statements of the Company in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented.

We have several significant accounting estimates, such as; income taxes, long lived assets and accounts receivable and inventories, which were discussed in the Form 10-K for the year ended June 30, 2004, that are both important to the portrayal of our financial condition and results of operations, and require management's most difficult, subjective and complex judgments. Typically, the circumstances that make these judgments complex and difficult have to do with making estimates about the effect of matters that are inherently uncertain. During the six months ended December 31, 2004, we did not make any new accounting estimates that are considered significant accounting estimates other than related to income taxes and impairment of inventory, property and equipment related to Penley, nor were there any significant changes related to our significant accounting estimates that would have a material impact on our consolidated financial position, results of operations, cash flows or our ability to conduct business.

### "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

-----

As a result of the Company adopting a plan of disposition for the sale of Penley Sports, LLC and reclassifying this activity to discontinued operations, the Company now principally only operates in one business segment, commercial real

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

estate rental, through its investee, UCV. Other revenues, which are not part of an identified segment, consist primarily of property management fees.

Selling, general and administrative costs decreased in 2004 primarily due to a decrease in professional fees. This was partially offset by a decrease in the amount of corporate expenses allocated to the discontinued operations of the golf segment.

Equity in income of investees decreased in the three and six month periods in 2004 due to the losses incurred from the operation of the one of the three properties owned by UCV which was acquired on September 26, 2003.

8

### Discontinued Operations:

-----  
As discussed in Footnote 7 of Notes to Consolidated Condensed Financial Statements, the Company has classified its operations in the golf and real estate rental 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. The Company and its unconsolidated subsidiary, UCV, utilizes both fixed rate and variable rate debt.

The following table presents scheduled principal payments and related weighted average interest rates of the Company's long-term fixed rate debt for the fiscal years ended June 30:

	2005	2006	2007	2008	2009	Total	Fair Value
Fixed rate debt	\$ 8,000	\$19,000	\$20,000	\$21,000	\$8,000	\$76,000	(1) \$76,000
Weighted average interest rate	4.6%	4.6%	4.6%	4.9%	4.9%	4.6%	4.6%

The following table presents scheduled principal payments and related weighted average interest rates of the UCV's long-term fixed rate and variable rate debt for the fiscal years ending June 30:

	2005	2006	2007	2008	2009	Thereafter	Total	F
Fixed rate debt	\$146,000	\$300,000	\$596,000	\$336,000	\$2,723,000	\$18,493,000	\$22,594,000	\$2
Weighted average interest rate	4.6%	4.6%	4.6%	6.1%	6.0%	6.0%	6.1%	
Variable Rate Debt	\$131,000	\$199,000	\$211,000	\$223,000	\$238,000	\$5,487,000	\$6,489,000	\$
Weighted average interest rate	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	6.8%	

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

The Company does not enter into derivative or interest rate transactions for

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

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, 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 control over financial reporting.

## PART II OTHER INFORMATION

### ITEM 1. Legal Proceedings

As of December 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, 2004.

### 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:

- 10.1 UCV Partnership Asset Distribution Agreement effective February 28, 2005
- 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:

On July 6, 2004, the Company filed a Current Report on Form 8-K reporting under Item 4 - Changes in Registrant's Certifying

Edgar Filing: SPORTS ARENAS INC - Form 10-Q

Accountant that on June 29, 2004, the Company dismissed KPMG LLP as its Independent Registered Public Accounting Firm and on June 30, 2004, the Company engaged Peterson & Co., LLP as its successor Independent Registered Public Accounting Firm.

On July 9, 2004, the Company filed a Current Report on Form 8-K reporting under Item 9. Regulation FD Disclosure that on June 30, 2004 the Company, Harold S. Elkan and Andrew Bradley, Inc. entered into a Debt Payment & Extra Compensation Agreement.

On September 7, 2004, the Company filed a Current Report on Form 8-K reporting under Item 1.01.- Entry into a Material Definitive Agreement that on September 2, 2004, the Company and Harold S. Elkan entered into the Stock Restriction Agreement, with an effective date of June 30, 2004 pursuant to, and as contemplated by, the Debt Payment and Compensation Agreement.

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

Date: February 21, 2005

By: /s/ Steven R. Whitman

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

Date: February 21, 2005

11