

15-Apr-2009

Annual Report

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Results of Operations:

For the year ended December 31, 2008 (the "2008 period") compared to the year ended December 31, 2007 (the "2007 period").

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Revenues:

Revenues decreased 62% to \$187,255 for the 2008 period from \$487,542 for the 2007 period. This decrease was attributable primarily to the following factors: The Las Vegas night club was sold in August 2008 and ceased licensing the Scores brand name. As a result, revenues from that club declined 80% to \$54,000 in the 2008 period from \$269,000 in the 2007 period. Additionally, the Chicago and Baltimore nightclubs experienced decreases in revenues due to the present unstable economic conditions - revenues decreased 27% to \$62,118 in the 2008 period from \$84,765 in the 2007 period for the Chicago club and 34% to \$45,830 in the 2008 period from \$69,252 in the 2007 period for the Baltimore club. Revenues from our New Orleans nightclub increased 13% in the 2008 period from the 2007 period. Our Lake Geneva, Wisconsin club ceased its operations in mid 2007. Revenues from the Lake Geneva club amounted to \$0 and \$22,500 for the 2008 and 2007 periods, respectively.

During the 2008 period, we did not record any royalty revenue from our formerly affiliated clubs (see Bad Debt Expense below). Royalty revenues for the 2008 period from our non-affiliate clubs in Las Vegas, Chicago, Baltimore and New Orleans accounted for 29%, 33%, 25% and 10% of those revenues, respectively.

In January 2007, AYA's website, Scoreslive.com, began a developmental test launch of its operations and, for the 2007 and 2008 periods, generated gross revenues of more than \$5,000 per month resulting in minimal royalties to us. We believe that the Scoreslive.com website will remain in development mode during 2009, continuing to generate minimal revenues for us.

We recognize revenues as they are earned, not as they are collected.

Bad Debt Expense

As of December 31, 2008, Scores East and Scores West owed us (indirectly, through EMS) \$615,476 and \$184,768, respectively, in accrued and unpaid royalties. We have decided to write off these amounts based on the NYSLA's revocation of the Scores West liquor license and the subsequent permanent closing of that club and the related Scores East surrender of its liquor license and the permanent closing of that club. Additionally, in connection with Go West's construction of the Scores West club, we loaned Go West \$1,636,264 in exchange for a promissory note from Go West (the "Note"). The Note has not been repaid and, as of December 31, 2008, \$1,867,310 (including accrued interest) remained due under the Note. As of December 31, 2006, we reserved the entire \$1,867,310, of the Note plus interest, as a bad debt expense. As of the 2007 period, we began forgoing interest on the Note.

Any cash received from the owners of our formerly affiliated clubs (Scores East and Scores West) has been applied as a reversal of the bad debt expense when received. In 2008, we reversed bad debt expense in the amount of \$35,928 for cash collected from Scores West and \$614,788 for cash collected from Scores East. This later amount included \$14,788 in cash and

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\$600,000 deemed paid to EMS (owner of Scores East) in consideration of our repurchase from EMS of all Licensing Rights and Royalty Rights under the MLA.

Operating Expenses:

Operating expenses decreased during the 2008 period to \$422,873 from \$773,025 during the 2007 period. Because of the termination in 2008 of the sublicense between EMS and DIF&B, owner of the Las Vegas club, and the significant reduction in royalties received from our other licensees, we had to reduce our administrative costs significantly to match the related short fall in our revenue for the year. Our revenues from the Las Vegas club as a percentage of our total royalty revenues decreased to 29% in the 2008 period from 58% in the 2007 period and, as a result, we reduced our rent, salaries, legal, public relations and business development costs by approximately \$350,000 in the 2008 period from the 2007 period.

Provision for Income Taxes:

The provision for state income taxes relates primarily to the greater of average assets and capital taxable income. The average assets and capital are not impacted by next operating losses.

Net Income (Loss) (per share):

Our net income for the 2008 period was \$131,122 or \$0.00 per share versus a net (loss) of \$(356,429) or \$(0.00) per share for the 2007 period. This change from a net (loss) to a net income from the 2007 period to the 2008 period can be attributed, primarily, to the reduction by \$350,000 in our administrative costs in the 2008 period, as a result of our decrease in revenue from the

Las Vegas club, and the reversal of bad debt for Scores East in the amount of \$600,000, as a result of our repurchase from EMS of rights under the MLA. Additionally, as a result of our belief that the carrying amount of the Scores trademark exceeded its fair or net present value for the 2008 period, we recognized and recorded an impairment loss in the amount of \$281,216 for the 2008 period. We based this impairment loss on the various adverse implications resulting from the permanent closing of the Scores East and Scores West clubs.

Net income per share data for both the 2008 and 2007 periods is based on net income available to common shareholders divided by the weighted average of the common shares outstanding.

Liquidity and Capital Resources

At December 31, 2008, we had \$173 in cash and cash equivalents compared to \$173 in cash and cash equivalents at December 31, 2007.

On February 28, 2007, our then President, Chief Executive Officer, Director and majority stockholder, Richard Goldring resigned from each of his positions, and terminated his employment with us. Under the terms of his employment agreement dated March 31, 2003, we are obligated to pay Mr. Goldring a \$1 million termination fee. Because of our lack of cash and other business related reasons, we have not paid Mr. Goldring this fee. We were negotiating a settlement with Mr. Goldring but we did not reach an agreement with him on the amount and terms of payment to be made to him and these negotiations are currently on hold.

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In 2006, we reserved a bad debt expense of approximately \$3.4 million in recognition of the impaired ability of Go West and 333 to pay royalties due us with respect to Scores West and Scores East, respectively, and of Go West to make payments to us under the Note. See - Bad Debt Expense.

Scores West accounted for 0% of our royalty revenue in both 2008 and 2007. As of December 31, 2008, Scores West owed us \$184,768 in unpaid royalties that will not be paid because that club lost its liquor license and has permanently closed.

In connection with our divestiture of stock of Go West, we loaned Go West \$1,636,264 in return for the Note secured by Go West's leasehold interest on the West 27th Street Building. The Note bore interest at 7% and was scheduled for maturity on October 1, 2008. Go West is currently in default under the Note, and as at December 31, 2008 owed us \$1,867,310 which includes accrued interest of \$355,189. We did not receive any interest payments on the Note during the 2008 period. Since April 18, 2008, Scores West has been in bankruptcy and its ability to make payments under the Note has ceased.

Scores East, accounted for 0% of our royalty revenue in both 2008 and 2007 respectively. As of December 31, 2008, Scores East owed us \$615,476 in royalties. This balance is net of (i) approximately

\$14,788 in cash received from Scores East and applied against royalty payments due and (ii) \$600,000 in credits that were offset against royalties due from Scores East. This offset was the result of our purchase of the Royalty Rights and Licensing Rights under the MLA from EMS. During the 2008 period, we retained approximately \$146,682 in cash royalties received directly from our Chicago non-affiliated club but due to EMS under the terms of the MLA. We retained that amount rather than remitting it to EMS to help cover our shortfalls in cash flow. As a result of the Transfer and the related Assignment Agreement, we applied the \$146,682 against the outstanding royalties we owed to EMS as of December 31, 2008.

We have incurred losses since the inception of our business. Since our inception, we have been dependent on funding from private lenders and investors to conduct operations. As of December 31, 2008 we had an accumulated deficit of \$(5,971,761). As of December 31, 2008, we had total current assets of \$14,018 and total current liabilities of \$155,808 or negative working capital of \$(141,790). As of December 31, 2007, we had total current assets of \$47,213 and total current liabilities of \$207,743 or negative working capital of \$(160,530). The increase in the amount of our working capital has been primarily attributable to our inability to collect on the outstanding receivables due from our formerly affiliated clubs, Score East and Scores West. As of December 31, 2008, both of these clubs have permanently closed and cash to extinguish the outstanding royalties due from these clubs will not be available for payment to us from them or their owners, 333 and Go West, respectively. Given our lack of cash, we were able to control our outstanding debt during the 2008 period by making significant reductions in our administrative costs.

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We presently do not have any available credit, bank financing or other external sources of liquidity to fund our operations. We will need to obtain additional capital in order to meet our working needs and to continue to execute our business plan, build our operations and become profitable. In order to obtain capital, we may need to sell additional shares of our Common Stock or debt securities, or borrow funds from private or institutional lenders. Because of recent problems in the credit markets, steep stock market declines, financial institution failures and government bail-outs, there can be no assurance that we will be successful in obtaining additional funding in amounts or on terms acceptable to us, if at all. If we are unable to raise additional funding as necessary, we may have to suspend our operations temporarily or cease operations entirely.

We will continue to evaluate possible acquisitions of or investments in businesses, products and technologies that are complimentary to ours. These may require the use of cash, which would also require us to seek financing. We may sell equity or debt securities or seek credit facilities to fund acquisition-related or other business costs. Sales of equity or convertible debt securities would result in additional dilution to our stockholders. Our future liquidity and capital requirements will depend upon numerous factors, including the success of our adult entertainment licensing business.

Compliance with Sarbanes-Oxley

The amount of royalties owed to us from our formerly affiliated nightclubs, Scores East and Scores West, and including our formerly affiliated nightclub in North Miami, Florida, during 2008 totaled \$816,905. The amount owed at December 31, 2007 was \$1,467,226. Cash received as partial payment on these receivables during the 2008 period and the 2007 period totaled \$50,715 and \$73,250, respectively. We received no payments of principal or interest on the Note during these periods.

As we and our formerly affiliated clubs and the North Miami club were under common control until January 27, 2009, we are mindful that those royalties' receivables could have taken on the appearance of prohibited loans under Section 402 of the Sarbanes-Oxley Act of 2002. We do not believe, however, that these receivables were prohibited loans as we exercised our best commercial efforts to reduce the amount due under these receivables.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure on contingent assets and liabilities at the date of our financial at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

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Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see note 2 to our consolidated financial statements.

Revenue Recognition

Revenues for the 2008 period and the 2007 period were derived predominately from royalties. We apply judgment to ensure that the criteria for recognizing revenues are consistently applied and achieved for all recognized sales transactions.

Long-Lived Assets (including Tangible and Intangible Assets)

We acquired the "Scores" trademark to market and conduct a global business strategy. Such costs affected the amount of future period amortization expense and impairment expense that we incur and record as cost of sales. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect our consolidated financial statements. We assess potential

impairment to the intangible and tangible assets on a quarterly basis or when evidence, events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Our judgments regarding the existence of impairment indicators and future cash flows related to these assets are based on operational performance of our business, market conditions and other factors. Future events could cause us conclude that impairment indicators exist and that other tangible or intangible assets is impaired.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements we are required to estimate our income taxes. Management judgment is required in determining our provision of our deferred tax asset. We recorded a valuation for the full deferred tax asset from our net operating losses carried forward due to the Company not demonstrating any consistent profitable operations. In the event that the actual results differ from these estimates or we adjust these estimates in future periods we may need to adjust such valuation recorded.