SPORTS ARENAS INC
Form 10-Q
May 16, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

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, Suite C, San Diego, California 92121
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (858) 587-1060

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 X No

The number of shares outstanding of the issuer's only class of common stock ($.01 par value) as of April 30, 2001 was 27,250,000 shares.

SPORTS ARENAS, INC.
FORM 10-Q
QUARTER ENDED MARCH 31, 2001

INDEX

SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS

	March 31, 2001 (Unaudited)	June 30, 2000
Current assets:		
Cash and cash equivalents	$ 263,078	$ 13,961
Current portion of notes receivable- affiliate	--	50,000
Other receivables	220,503	193,510
Inventories	354,961	304,906
Prepaid expenses	91,784	238,719
Total current assets	930,326	801,096
Receivables due after one year:		
Note receivable- affiliate, net	--	73,866
Less current portion	--	(50,000)
	--	23,866
Property and equipment, at cost:		
Land	--	678,000
Buildings	--	2,461,327
Equipment and leasehold and tenant improvements	2,255,895	2,347,767
	2,255,895	5,487,094
Less accumulated depreciation and amortization	(1,028,570)	(2,160,132)
Net property and equipment	1,227,325	3,326,962

Other assets:		
Undeveloped land, at cost	1,532,073	1,501,318
Intangible assets, net	160,452	246,123
Investments	519,446	564,446
Other	120,999	137,425
	2,332,970	2,449,312
	$4,490,621	$6,601,236

1

SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS (CONTINUED)
LIABILITIES AND SHAREHOLDERS' DEFICIT

	March 31, 2001	June 30, 2000
	(Unaudited)	
Current liabilities:		
Assessment district obligation- in default	$3,038,618	$2,831,180
Notes payable-short term	1,600,000	1,350,000
Current portion of long-term debt	54,000	1,874,000
Accounts payable	756,805	796,483
Accrued payroll and related expenses	253,577	164,170
Accrued property taxes- in default	410,445	356,178
Accrued interest	173,779	41,079
Other liabilities	489,585	216,009
Total current liabilities	6,776,809	7,629,099
Long-term debt, excluding current portion	6,685	1,967,169
Distributions received in excess of basis in investment	15,171,899	14,498,208
Other liabilities	132,000	123,831
Minority interest in consolidated subsidiary	1,712,677	1,712,677
Shareholders' deficit:		
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
Accumulated deficit	(19,020,506)	(19,040,805)

	(17,017,957)	(17,038,256)
Less note receivable from shareholder	(2,291,492)	(2,291,492)
Total shareholders' deficit	(19,309,449)	(19,329,748)
Commitments and contingencies (Note 6)		
	$4,490,621	$6,601,236

See accompanying notes to consolidated condensed financial statements.

SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2001 AND 2000
(Unaudited)

	2001	2000
Revenues:		
Bowling	$ 552,596	$ 793,718
Rental	42,131	163,203
Golf	419,576	318,987
Other	34,618	119,256
Other-related party	44,763	43,085
	1,093,684	1,438,249
Costs and expenses:		
Bowling	429,419	521,409
Rental	41,783	62,299
Golf	628,263	422,101
Development	42,021	92,503
Selling, general, and administrative	877,284	989,651
Depreciation and amortization	63,254	96,952
	2,082,024	2,184,915
Loss from operations	(988,340)	(746,666)
Other income (charges):		
Investment income:		
Related party	8,529	9,157
Other	1,609	1,954
Interest expense:		
Development activities	(77,159)	(62,950)

Other and amortization of finance costs	(50,483)	(84,083)
Equity in income of investees	74,929	45,569
	(42,575)	(90,353)
Net loss	$(1,030,915)	$ (837,019)
Basic and diluted net loss per common share (based on 27,250,000 weighted average common shares outstanding)	($0.04)	($0.03)

See accompanying notes to consolidated condensed financial statements.

SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
NINE MONTHS ENDED MARCH 31, 2001 AND 2000
(Unaudited)

	2001	2000
Revenues:		
Bowling	$1,882,328	$2,043,672
Rental	353,278	479,593
Golf	950,205	600,518
Other	113,052	180,003
Other-related party	133,555	128,419
	3,432,418	3,432,205
Costs and expenses:		
Bowling	1,472,475	1,557,673
Rental	174,234	186,679
Golf	1,646,985	1,026,914
Development	127,013	182,816
Selling, general, and administrative	2,659,497	2,762,324
Depreciation and amortization	228,065	288,904
	6,308,269	6,005,310
Loss from operations	(2,875,851)	(2,573,105)
Other income (charges):		
Investment income:		
Related party	15,792	29,130
Other	1,609	11,043
Interest expense:		
Development activities	(207,438)	(195,951)
Other and amortization of finance costs	(341,157)	(263,568)
Loss on sale of undeveloped land	--	(638)
Gain on sale of office building	2,764,483	--

Gain on sale of bowling center building	482,487	--
Equity in income of investees	180,374	288,868
	2,896,150	(131,116)
Net income (loss)	$ 20,299	$(2,704,221)
Basic and diluted net income (loss) per common share (based on 27,250,000 weighted average common shares (outstanding)	$0.00	($0.10)

See accompanying notes to consolidated condensed financial statements.

SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED MARCH 31, 2001 AND 2000
(Unaudited)

	2001	2000
Cash flows from operating activities:		
Net income (loss)	$ 20,299	($2,704,221)
Adjustments to reconcile net income (loss) to the net cash used by operating activities:		
Amortization of deferred financing costs	18,846	6,840
Depreciation and amortization	228,065	288,904
Equity in income of investees	(180,374)	(288,868)
Deferred income	36,000	36,000
(Gain) loss on sale of property	(3,246,970)	638
Interest accrued on assessment district obligations	207,438	195,951
Changes in assets and liabilities:		
Increase in receivables	(20,792)	(80,887)
(Increase) decrease in inventories	(50,055)	85,350
(Increase) decrease in prepaid expenses	63,259	(95,733)
Increase (decrease) in accounts payable	(39,678)	221,344
Increase in accrued expenses	549,950	170,793
Other	28,996	(15,840)
Net cash used by operating activities	(2,385,016)	(2,179,729)
Cash flows from investing activities:		
Decrease in notes receivable	73,866	31,457
Capital expenditures	(375,039)	(130,769)
Increase in development costs on undeveloped land	(30,755)	(66,717)
Proceeds from sale of undeveloped land	--	190,362
Proceeds from sale of office building	1,662,337	--
Proceeds from bowling center building	2,047,328	--

Distributions from investees	1,059,000	2,122,500
Contributions to investees	(200,000)	(43,319)
Net cash provided by investing activities	4,236,737	2,103,514
Cash flows from financing activities:		
Scheduled principal payments on long-term debt	(179,029)	(210,712)
Extinguishment of long-term debt	(1,650,977)	(75,927)
Proceeds from short-term notes payable	1,200,000	750,000
Payments on short-term notes payable	(950,000)	(550,000)
Other	(22,598)	--
Net cash used by financing activities	(1,602,604)	(86,639)
Net increase (decrease) in cash and cash equivalents	249,117	(162,854)
Cash and cash equivalents, beginning of period	13,961	357,906
Cash and cash equivalents, end of period	$ 263,078	195,052

See accompanying notes to consolidated condensed financial statements.

SPORTS ARENAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
MARCH 31, 2001 AND 2000
(Unaudited)

1. The information furnished reflects all adjustments (consisting of normal recurring adjustments) which management believes are necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim periods.

2. Due to the seasonal fluctuations of the bowling and golf shaft manufacturing operations, the financial results for the interim periods ended March 31, 2001 and 2000, are not necessarily indicative of operations for the entire year.

3. Investments:

(a) Investments consist of the following:

	March 31, 2001	June 30, 2000
Vail Ranch Limited Partnership	$ 519,446	$ 564,446
Investment in UCV, L.P. classified as liability- Distributions received in excess of basis in investment	$ 15,171,899	$ 14,498,208

The following is a summary of the equity in income (loss) of the investments accounted for by the equity method for the nine-month periods ended March 31,:

	2001	2000
UCV, L.P.	$ 225,374	$ 346,868
Vail Ranch Limited Partnership	(45,000)	(58,000)
	$ 180,374	$ 288,868

The following is a summary of distributions received from investees for the nine-month periods ended March 31,:

	2001	2000
UCV, L.P.	$ 1,059,000	$ 2,122,500
Vail Ranch Limited Partnership	--	--
	$ 1,059,000	$ 2,122,500

(b) Investment in UCV, L.P.

The operating results of this investment are included in the accompanying consolidated condensed statements of operations based upon the partnership's fiscal year (March 31). Summarized information from UCV, L.P.'s (UCV) unaudited statements of income for the nine and three month periods ended December 31, 2000 and 1999 are as follows:

	Nine Months		Three Months	
	2000	1999	2000	1999
Revenues	$3,796,000	$3,593,000	$1,272,000	$1,226,000
Operating and general and administrative costs	1,229,000	1,266,000	378,000	427,000
Depreciation	17,000	20,000	5,000	7,000
Interest expense	2,099,000	1,613,000	709,000	635,000
Net income	451,000	694,000	180,000	157,000

On March 8, 2001, UCV paid its existing $28,478,687 note payable with the proceeds from a $33,000,000 loan. The new loan provides for monthly payments of interest only at a variable rate of interest equal to LIBOR (not less than 6 percent) plus 2-1/2 percentage points. UCV paid a fee to cap LIBOR at 6. The note payable matures August 2002 but may be extended for two 12-month periods upon entering into an agreement to cap LIBOR at 7 percent. The loan may be prepaid at any time, however, there are prepayment fees as follows: 3 percent if paid prior to the sixth payment date; 1-1/2 percent if paid prior to the ninth payment date; 1 percent if paid prior to the twelfth payment date; and none thereafter. UCV is required to make a monthly payment of approximately $16,290 to a property tax and insurance impound account. The note payable is collateralized by the land, buildings, leases and security deposits. The proceeds of the new loan, after extinguishing the $28,478,687 note payable less a refund of impounds of $161,907, were utilized to: pay a prepayment penalty of $295,260, pay loan

costs of $976,615, pay distributions to the partners of $1,820,000 in March 2001, fund a capital replacement impound maintained by the lender of

$754,040 and provide working capital of $837,305. The refinancing resulted in charges of $401,444 related to the prepayment penalty of $295,260 and $106,184 of the unamortized portion of deferred loan costs related to the old note payable. These charges were classified as an extraordinary loss from extinguishment of debt in the financial statements of UCV in its fourth quarter ending March 31, 2001. The Company's equity in the extraordinary loss of UCV will be recorded in the Company's quarter ending June 30, 2001.

4. Undeveloped land:

RCSA Holdings, Inc. (RCSA), a wholly owned subsidiary of the Company, owns a 50 percent managing general partnership interest in Old Vail Partners, a general partnership (OVPGP), which owns 33 acres of undeveloped land in Temecula, California. On September 23, 1999, the other partner assigned his partnership interest to Downtown Properties, Inc., a wholly owned subsidiary of the Company. OVPGP is obligated to assign its interest in the 33 acres of land to Old Vail Partners, L.P. The 33 acres of land owned by OVPGP are located within a special assessment district of the County of Riverside, California (the County) which was created to fund and develop roadways, sewers, and other required infrastructure improvements in the area necessary for the owners to develop their properties. Property within the assessment district is collateral for an allocated portion of the bonded debt that was issued by the assessment district to fund the improvements. The annual payments (required in semiannual installments) due related to the bonded debt are approximately $144,000. The payments continue through the year 2014 and include interest at approximately 7-3/4 percent. OVPGP has been delinquent in the payment of property taxes and assessments for over the last eight years. The property is currently subject to default judgments to the County of Riverside, California totaling approximately $2,420,957 regarding delinquent assessment district payments ($2,010,512) and property taxes ($410,445). On June 23, 2000, the County of Riverside agreed to remove the property from the planned public sale originally scheduled for June 26, 2000 in exchange for an immediate payment of $330,000 with the balance of property taxes due on December 29, 2000. Separately, the County of Riverside stated that a foreclosure sale related to the default judgement for assessment district payments would not be scheduled until some time after January 1, 2001. On January 19, 2001, the County of Riverside agreed to extend the due date to March 30, 2001 with options for three additional extensions to August 1, 2001. The options for additional extensions would require payments totaling $75,000 to be applied to the amount due. Payments have been made to extend the agreement through May 31, 2001.

The delinquent principal, interest and penalties ($2,010,512) and the remaining principal balance of the allocated portion of the assessment district bonds ($1,028,106) are classified as "Assessment district obligation- in default" in the consolidated balance sheet at March 31, 2001. In addition, the consolidated balance sheet at March 31, 2001 includes $410,445 of delinquent property taxes and late fees related to the 33-acre parcel.

In November 1993, the City of Temecula adopted a general development plan that designated the property owned by OVPGP as suitable for "professional office" use, which is contrary to its zoning as "commercial" use. As part of the adoption of its general development plan, the City of Temecula adopted a provision that, until the zoning is changed on properties affected by the general plan, the general plan shall prevail when a use designated by the general plan conflicts with the existing zoning on the property. The result is that the City of Temecula has effectively down-zoned OVPGP's property from a "commercial" to "professional office" use. The property is subject to assessment district obligations that were allocated in 1989 based on a higher "commercial" use. Since the assessment district obligations are not subject to reapportionment as a result of re-zoning, a "professional office" use is not economically feasible due to the disproportionately high allocation of assessment district costs. OVPGP filed suit against the City of Temecula claiming that, if the effective re-zoning is valid, the action is a taking and damaging of OVPGP's property without payment of just compensation. OVPGP sought to have the effective re-zoning invalidated and an unspecified amount of damages. OVPGP previously suffered adverse outcomes in other suits filed in relation to this matter. A stipulation was entered that dismissed this suit without prejudice and agreed to toll all applicable statute of limitations while OVPGP and the City of Temecula attempted to informally resolve this litigation. On October 23, 2000, the City of Temecula's city council granted preliminary approval of OVPGP's request for re-zoning and general plan amendment related to a development plan which includes a combination of multi-family and commercial uses. On November 28, 2000 the re-zoning and general plan amendment requested by OVPGP were adopted by the City of Temecula and OVPGP abandoned its legal claims against the City of Temecula.

On January 11, 2001, the Company agreed to sell the 33 acres to an unrelated developer for $6,550,000 cash plus assumption of the non-delinquent balance of the assessment district obligation ($1,028,106 as of December 31, 2000) at the time of closing, which was to be April 20, 2001. The buyer had deposited $260,000 into escrow which became non-refundable and the funds were paid to OVPGP when the buyer waived all contingencies in March 2001. On May 4, 2001, the Company signed an agreement to extend the closing date to May 31, 2001 and reduce the cash sale price to $6,375,000. The buyer has deposited an additional $740,000 as a non-refundable deposit to escrow. If the sale closes, the Company estimates that it will recognize a gain in the fourth quarter.

The following is a summary of the results from operations of the development activities related to this undeveloped land included in the financial statements in the three and nine month periods:

	Three Months		Nine Months	
	2001	2000	2001	2000
Development costs	42,000	93,000	127,000	183,000
Allocated SG&A	6,000	--	17,000	17,000
Loss from operations	(48,000)	(93,000)	(144,000)	(200,000)
Interest expense- development	77,000	63,000	207,000	196,000
Loss from continuing operations	(125,000)	(156,000)	(351,000)	(396,000)

5. Notes payable:

Pursuant to a short term loan agreement with the Company's partner in UCV, the Company borrowed an additional $700,000 in the three months ended September 30, 2000, $350,000 on October 17, 2000 and $150,000 on November 10, 2000. On December 28, 2000 the Company paid $500,000 of the short term note payable from the proceeds of the office building sale (Note 7a) and on March 8, 2001 paid $450,000 from the proceeds of distributions received from UCV.

The Company has agreed in principle to repay principal on the short term loan from the proceeds of the following events: up to $350,000 from distributions received from the sale of the 33 acres owned by Old Vail Partners, a general partnership and up to $350,000 from 50% of the distributions received from the sale of the shopping center in which Old Vail Partners, Ltd. is a partner. The remaining balance will become due on July 31, 2001, however, the Company will have the ability to extend the due date for up to one additional year.

6. Contingencies:

The Company is involved in other various routine litigation and disputes incident to its business. In management's opinion, based in part on the advice of legal counsel, none of these matters will have a material adverse effect on the Company's financial position.

7. Significant events: (a) Sale of Office Building:

On December 28, 2000 the Company sold its office building for $3,725,000 and recorded a gain of $2,764,483. The consideration consisted of the assumption of the existing loan with a principal balance of $1,950,478 and cash of $1,662,337. The cash proceeds were net of selling expenses of $163,197, credits for lender impounds of $83,676, deductions for security deposits of $26,463 and prepaid rents of $6,201. The Company has been released from liability under the existing loan except for those acts, events or omissions that occurred prior to the loan assumption. The Company has occupied approximately 5,000 square feet of space in the building since 1984. The existing lease expires in September 2011. In conjunction with a lease modification with the new owner to the office building, the Company vacated the premises on April 6, 2001 and moved into the factory space occupied by its subsidiary, Penley Sports, LLC. However, because the lease commitment was a condition to the original loan agreement, the lender will only allow the Company to be conditionally released from its remaining lease obligation. In the event there is an uncured event of default by the new owner of the office building under the existing loan agreement, the Company's obligations under its lease will be reinstated to the extent there is not an enforceable lease on the Company's space. The future minimum rent payments under the lease agreement are as follows for the period and years ending June 30: $16,000 for the three month period ending June 30, 2001; $68,000- 2002; $70,000- 2003; $72,000- 2004; $75,000- 2005; $77,000- 2006; $443,000 thereafter and $839,000 in the aggregate.

The following is a summary of the results from operations of the office building included in the financial statements in the three and nine month periods:

	Three Months		Nine Months	
	2001	2000	2001	2000
Rents	--	$122,000	$244,000	$353,000
Costs	--	28,000	52,000	84,000
Allocated SG&A	--	7,000	15,000	22,000
Depreciation	--	21,000	16,000	63,000
Income from operations	--	66,000	161,000	184,000
Interest expense	--	42,000	81,000	125,000
Income from continuing operations	--	24,000	80,000	59,000

(b) Sale of Valley Bowl real estate:

On December 29, 2000 the Company sold the land and building occupied by the Valley Bowling Center for $2,215,000 cash and recorded a gain of $482,487. The proceeds of the sale were used to pay the existing loan of $1,650,977 and selling expenses of $167,671. The bowling center discontinued its operations on December 21, 2000. The following is a summary of the results of operations of the bowling center included in the financial statements:

	Three Months		Nine Months	
	2001	2000	2001	2000
Revenues	$1,000	$336,000	$460,000	$872,000
Costs	2,000	171,000	319,000	540,000
Direct SG&A	-	58,000	103,000	188,000
Allocated SG&A	-	24,000	30,000	63,000
Depreciation	-	21,000	26,000	69,000
Income from operations	(1,000)	62,000	(18,000)	12,000
Interest expense	-	35,000	91,000	107,000
Income from continuing operations	(1,000)	27,000	(109,000)	(95,000)

8. Supplementary Non-Cash information:

The following is a summary of the changes to the balance sheet related to the non-cash portion of the sale of the office building and Valley Bowl real estate:

	Office Building	Valley Bowl Real Estate
Receivables	$6,201	$ --
Prepaid expenses	(83,676)	--
Property and equipment	(1,171,699)	(2,434,539)
Accumulated depreciation	(438,096)	(877,536)
Deferred loan costs	(52,200)	(7,838)
Other assets	(11,516)	--
Long-term debt	(1,950,478)	--
Other liabilities	(26,462)	--

9. 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, has a working capital deficiency, 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 either refinancing or selling certain real estate assets or increases in the sales volume of its subsidiary, Penley Sports. The consolidated condensed 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.

10. Business segment information:

The Company operates principally in four business segments: bowling centers, commercial real estate rental, real estate development, and golf 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.

	Bowling	Real Estate Rental	Real Estate Development	Golf	Una An
NINE MONTHS ENDED MARCH 31, 2001:					
Revenues	$ 1,882,328	$ 386,263	$ --	$ 950,205	$
Depreciation and amortization...	33,075	57,270	--	107,489	
Interest expense	91,117	80,993	207,438	4,193	
Equity in income (loss) of investees	--	225,374	(45,000)	--	
Gain on sale	482,487	2,764,483	--	--	
Segment profit (loss)	207,504	3,048,623	(396,451)	(2,367,870)	
Investment income					
Net income					
NINE MONTHS ENDED MARCH 31, 2000:					
Revenues	$ 2,043,672	$ 527,593	$ --	$ 600,518	$
Depreciation and amortization...	78,561	104,226	--	69,204	
Interest expense	107,181	125,020	196,972	10,979	
Equity in income (loss) of investees	--	346,868	(58,000)	--	
Loss on sale	--	--	(638)	--	
Segment profit (loss)	(350,208)	436,536	(455,426)	(2,078,018)	
Investment income					
Net loss					
THREE MONTHS ENDED MARCH 31, 2001:					
Revenues	$ 552,596	$ 42,131	$ --	$ 419,576	$
Depreciation and amortization...	2,490	13,829	--	36,858	
Interest expense	--	--	77,159	816	
Equity in income (loss) of investees	--	89,929	(15,000)	--	
Segment profit (loss)	(26,177)	76,448	(140,180)	(839,860)	
Investment income					
Net loss					
THREE MONTHS ENDED MARCH 31, 2000:					
Revenues	$ 793,718	$ 179,403	$ --	$ 318,987	$

Depreciation and amortization...	25,928	35,126	--	23,634
Interest expense	35,045	41,592	62,950	3,073
Equity in income (loss) of investees	--	78,569	(33,000)	--
Segment profit (loss)	(2,892)	111,955	(188,453)	(739,806)
Investment income				
Net loss				

	Nine Months		Three Months	
	2001	2000	2001	2000
Revenues per segment	$3,465,403	$3,480,205	$1,093,684	$1,454,449
Intercompany rent eliminated	(32,985)	(48,000)	--	(16,200)
Consolidated revenues	$3,432,418	$3,432,205	$1,093,684	$1,438,249

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

Liquidity and Capital Resources

Excluding the balance of the assessment-district-obligation-in-default and property taxes in default related to the same property which are included in current liabilities, the Company has a working capital deficit of $2,397,420 at March 31, 2001, which is a $1,243,225 decrease from the similarly calculated working capital deficit of $3,640,645 at June 30, 2000. The increase in working capital is primarily attributable to the cash proceeds from the sale of two properties and the distributions received from UCV, which were partially offset by the cash used by operating activities for the nine months ended March 31, 2001. The following is a schedule of the cash provided (used) before changes in assets and liabilities, segregated by business segments:

	2001	2000	Change
Bowling	$ (226,000)	$(270,000)	$ 44,000
Rental	119,000	199,000	(80,000)
Golf	(2,260,000)	(2,009,000)	(251,000)
Development	(144,000)	(201,000)	57,000
General corporate expense and other	(405,000)	(184,000)	(221,000)
Cash used by continuing operations	(2,916,000)	(2,465,000)	(451,000)
Capital expenditures	(406,000)	(197,000)	(209,000)
Principal payments on long-term debt	(179,000)	(211,000)	32,000
Cash used	(3,501,000)	(2,873,000)	(628,000)
Distributions received from investees, net	859,000	2,079,000	(1,220,000)
Proceeds from sale of properties, net of extinguishment of debt	2,059,000	114,000	1,945,000

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The Company has been unable to generate sufficient cash flow from operating activities to meet scheduled principal payments on long-term debt and capital replacement needs during the last several years. It has used its share of distributions from investees and proceeds from refinancings and sales of assets to fund these deficits.

As described in Note 4 of the Notes to Consolidated Condensed Financial Statements, OVPGP is delinquent in the payment of special assessment district obligations and property taxes on 33 acres of undeveloped land. The annual obligation for the assessment district is approximately $144,000. The County of Riverside obtained judgments for the default in the delinquent assessment district payments. The amounts due to cure the judgment for the default under the assessment district obligation on the 33 acre parcel as of March 31, 2001 was approximately $2,011,000. The delinquent principal, interest and penalties ($2,010,512) and the remaining principal balance of the allocated portion of the assessment district bonds ($1,028,106) are classified as "Assessment district obligation- in default" in the consolidated balance sheet at March 31, 2001. In addition, the consolidated balance sheet at March 31, 2001 includes $410,445 of delinquent property taxes and late fees related to the 33-acre parcel. On June 23, 2000, the County of Riverside agreed to remove the property from the planned public sale originally scheduled for June 26, 2000 in exchange for an immediate payment of $330,000 with the balance of property taxes due on December 29, 2000. Separately, the County of Riverside stated that a foreclosure sale related to the default judgement for assessment district payments would not be scheduled until some time after January 1, 2001. On January 19, 2001, the County of Riverside agreed to extend the due date to March 30, 2001 with three options to that would extend the due date to August 1, 2001. Each extension option requires a payment of $25,000. Payments have been made to date to extend the agreement to May 31, 2001. In 1993 the City of Temecula adopted a general development plan as a means of down-zoning the property to a lower use and, if uncontested, might have significantly impaired the value of the property. As described in Note 4 of the Notes to Consolidated Condensed Financial Statements, the Company contested this action. On October 23, 2000, the City of Temecula's city council granted preliminary approval of OVPGP's request for re-zoning and general plan amendment related to a development plan which includes a combination of multi-family and commercial uses. On November 28, 2000 the re-zoning and general plan amendment requested by OVPGP were adopted by the City of Temecula and OVPGP abandoned its legal claims against the City of Temecula.

On January 11, 2001, the Company agreed to sell the 33 acres to an unrelated developer for $6,550,000 cash plus assumption of the non-delinquent balance of the assessment district obligation ($1,028,106 as of March 31, 2001) at the time of closing. Closing was to take place on April 20, 2001. The buyer had waived all contingencies but was unable to meet its obligations on the closing date. On May 4, 2001, the Company signed an agreement to extend the closing date to May 31, 2001 and reduce the cash sale price to $6,375,000. The buyer has deposited an additional $740,000 as a non-refundable deposit to escrow. The Company estimates the proceeds from the sale to the Company will be approximately $1,374,000 after paying delinquent assessment district obligations and property taxes ($2,491,000), selling expenses and other costs ($379,000), distribution to minority interest holder of Old Vail Partners ($1,156,000), and a development fee to Landgrant Corporation ($975,000).

On December 28, 2000 the Company sold its office building for $3,725,000 and recorded a gain of $2,764,483. The proceeds consisted of the assumption of the existing loan with a principal balance of $1,950,478 and cash proceeds of $1,662,337. The cash proceeds were net of selling expenses of $163,197, credits for lender impounds of $83,676, deductions for security deposits of $26,463 and prepaid rents of $6,201. The Company has been released from liability under the existing loan except for those acts, events or omissions that occurred prior to the loan assumption. The Company occupied approximately 5,000 square feet of space in the building under a lease that expires in September 2011. The Company vacated these premises on April 6, 2001 and relocated to the factory space occupied by its subsidiary, Penley Sports, LLC. However, because the lease commitment was a condition to the original loan agreement, the lender will only allow the Company to be conditionally released from its remaining lease obligation. In the event there is an uncured event of default by the new office building owner under the existing loan agreement, the Company obligations under its lease will be reinstated to the extent there is not an enforceable lease on the Company's space.

On December 29, 2000 the Company sold the land and building occupied by the Valley Bowling Center for $2,215,000 cash and recorded a gain of $482,487. The proceeds of the sale were used to pay the existing loan of $1,650,977 and selling expenses of $160,670. The bowling center discontinued its operations on December 21, 2000.

On October 3, 2000, UCV obtained approval for the plans to redevelop the 542 unit apartment project into 1,109 units plus an 80 unit assisted living facility. UCV is currently evaluating alternatives for financing the redevelopment.

On March 8, 2001, UCV paid its existing $28,478,687 note payable with the proceeds from a $33,000,000 loan. The new loan provides for monthly payments of interest only at a variable rate of interest equal to LIBOR (not less than 6 percent) plus 2-1/2 percentage points. UCV paid a fee to cap LIBOR at 6 percent. The note payable matures August 2002 but may be extended for two 12-month periods upon entering into an agreement to cap LIBOR at 7 percent. The loan may be prepaid at any time, however, there are prepayment fees as follows: 3 percent if paid prior to the sixth payment date; 1-1/2 percent if paid prior to the ninth payment date; 1 percent if paid prior to the twelfth payment date; and none thereafter. UCV is required to make a monthly payment of approximately $16,290 to a property tax and insurance impound account. The note payable is collateralized by the land, buildings, leases and security deposits. The proceeds of the new loan, after extinguishing the $28,478,687 note payable less a refund of impounds of $161,907, were utilized to: pay a prepayment penalty of $295,260, pay loan costs of $976,615, pay distributions to the partners of $1,820,000, fund a capital replacement impound maintained by the lender of $754,040 and provide working capital of $837,305. The refinancing resulted in charges of $401,444 related to the prepayment penalty of $295,260 and $106,184 of the unamortized portion of deferred loan costs related to the old note payable. These charges were classified in UCV's financial statement as an extraordinary loss from extinguishment of debt in the year ended March 31, 2001.

Management estimates negative cash flow of $700,000 to $900,000 for the remaining quarter of the year ending June 30, 2001 from operating activities before adding an estimated $300,000 distribution from UCV from its operating activities, the estimated sales proceeds of $1,300,000 from the sale of the 33 acres of undeveloped land, and deducting $350,000 of principal payments due on the short term note payable triggered by this events. Management expects continuing cash flow deficits until Penley Sports develops sufficient sales volume to become profitable. However, there can be no assurances that Penley Sports will ever achieve profitable operations. Management is currently evaluating obtaining additional investors in Penley Sports to provide sufficient funds for the expected future cash flow deficits. 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.

"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 nine-month and three-month periods ended March 31, 2001 to the same periods in 2000 and a discussion of the significant changes:

NINE MONTHS ENDED MARCH 31, 2001 VERSUS 2000

	Bowling	Rental Operation	Real Estate Development	Golf	Unallocate And Other
Revenues	$(161,344)	$ (141,330)	--	$ 349,687	$ (61,815
Costs	(85,198)	(12,445)	(55,803)	620,071	--
SG&A-direct	(53,143)	--	--	(6,031)	(58,668
SG&A-allocated	(36,678)	(7,000)	--	(6,000)	49,678
Depreciation and amortization ..	(45,486)	(46,956)	--	38,285	(6,682
Interest expense	(16,064)	(44,027)	10,466	(6,786)	145,487
Equity in investees	--	(121,494)	13,000	--	--
Gain on sale	482,487	2,764,483	638	--	--
Segment profit (loss)	557,712	2,612,087	58,975	(289,852)	(191,630
Investment income					
Income from operations					

THREE MONTHS ENDED MARCH 31, 2001 VERSUS 2000

	Bowling	Rental Operation	Real Estate Development	Golf	Unallocate And Other
Revenues	$(241,122)	$ (137,272)	--	$ 100,589	$ (82,960
Costs	(91,990)	(20,516)	(50,482)	206,162	--
SG&A-direct	(52,807)	--	--	(12,486)	(63,274
SG&A-allocated	(14,557)	(7,000)	6,000	(4,000)	19,557
Depreciation and amortization ..	(23,438)	(21,297)	--	13,224	(2,187
Interest expense	(35,045)	(41,592)	14,209	(2,257)	45,294
Equity in investees	--	11,360	18,000	--	--
Segment profit (loss)	(23,285)	(35,507)	48,273	(100,054)	(82,350
Investment income					

Income from operations ....

Note: The change in rental revenues and SG&A expenses do not include the effect of the net change in elimination of intercompany rent of $15,015 and $16,200 in the nine and three month periods, respectively.

13

BOWLING OPERATIONS:

The segment includes the operations of two bowling centers, Valley Bowl and Grove Bowl. On December 21, 2000, the Company closed the operations of Valley Bowl in conjunction with the sale of the real estate on December 29, 2000. The following is a summary by bowling center of the changes in the results of operations of the nine-month and three-month periods ended March 31, 2001 to the same periods in 2000:

	Six-Month Period			Three-Month Period		
	Grove	Valley	Combined	Grove	Valley	Combined
Revenues	249,661	(411,005)	(161,344)	93,908	(335,030)	(241,122)
Costs	134,692	(219,890)	(85,198)	75,672	(167,662)	(91,990)
SG&A-direct	31,120	(84,263)	(53,143)	5,228	(58,035)	(52,807)
SG&A-allocated	(2,978)	(33,700)	(36,678)	10,043	(24,600)	(14,557)
Depreciation and amortization	(1,855)	(43,631)	(45,486)	(2,339)	(21,099)	(23,438)
Interest expense	--	(16,064)	(16,064)	--	(35,045)	(35,045)
Gain on sale	--	482,487	482,487	--	--	--
Segment profit (loss)	88,682	469,030	557,712	5,304	(28,589)	(23,285)

Bowl revenues of Grove Bowl (Grove) increased by 21% in the three and nine month periods primarily due to 8% and 12% increases in the number of games bowled in the three and nine month periods, respectively. The Grove Bowl's revenues have consistently increased since the surrounding shopping center was redeveloped and reopened in March 2000. Grove also had 12% and 8% increases in the average price of games bowled in the three and nine month periods respectively.

Bowl costs of Grove increased primarily due to increases in utility costs of $38,152 (224%) and $94,311 (144%) in the three and nine month periods, respectively. These increases were due to the increase in electric rates in San Diego. Payroll and related costs also increased by $32,842 (30%) and $40,440 (12%) in the three and nine month periods respectively.

Grove's SG&A direct expenses increased during the nine month period primarily due to increases in promotion and advertising expenses of $19,851 (16%), which primarily occurred in the first six months.

RENTAL OPERATIONS:

This segment includes the operations of the office building sold December 28, 2000, the equity in income of the operation of a 542 unit apartment project , a subleasehold interest in land underlying a condominium project and other miscellaneous rents received on undeveloped land. The following is a summary of the changes in operations in the nine and three month periods ending March 31, 2001:

	Nine-Month Period			Three-Month Period		
	Office	Others	Combined	Office	Others	Combined
Revenues	(109,471)	(31,859)	(141,330)	(121,860)	(15,412)	(137,272)

Costs	(30,907)	18,462	(12,445)	(26,949)	6,433	(20,516)
SG&A-allocated	(7,000)	--	(7,000)	(7,000)	--	(7,000)
Depreciation and amortization	(46,956)	--	(46,956)	(21,297)	--	(21,297)
Interest expense	(44,027)	--	(44,027)	(41,592)	--	(41,592)
Equity in income of UCV	--	(121,494)	(121,494)	--	11,360	11,360
Gain on sale	2,764,483	--	2,764,483	--	--	--
Segment profit (loss)	2,783,902	(171,815)	2,612,087	(25,022)	(10,485)	(35,507)

A temporary easement granted by the Company for the use of a portion of its undeveloped land in Temecula, California expired in September 2000. The Company had been amortizing approximately $17,000 of deferred rent to income each quarter. Other rental costs increased due to an increase in the rent expense for the subleasehold interest.

The equity in income of UCV decreased in the nine month period primarily due to a decrease in UCV's net income of $243,000. The primary reason for the decrease was a $486,000 increase in interest expense in the period related to additional financing UCV obtained in October 1999. This increase in expense was partially offset by an increase of $203,000 in rental income. Rental income of UCV increased 6% in the nine and 4% in the three month periods primarily due to an increase in the average rental rates.

REAL ESTATE DEVELOPMENT OPERATIONS:

Development costs and expenses primarily consists of property taxes and legal costs incurred to contest the City of Temecula's attempts to down-zone the undeveloped land owned by Old Vail Partners. Development costs decreased in the nine and three month periods due to a decrease in legal costs related to the development plan approval received in November 2000. Interest expense related to development activities primarily relates to interest accrued on the past due and current assessment district obligations of Old Vail Partners.

GOLF OPERATIONS:

Prior to January 2000, golf shaft sales were principally to custom golf shops. In January 2000, Penley commenced sales to two of the largest golf equipment distributors. In addition to increases in sales related to these two customers, direct sales to the after-market and small golf-club manufacturers also increased, likely due to the credibility and increased exposure from the Penley products being included in the catalogs of these two distributors.

Operating expenses of the golf segment consisted of the following in 2001, and 2000:

	Three Months		Nine Months	
	2001	2000	2001	2000
Costs of goods sold and manufacturing overhead	$ 550,000	$ 367,000	$1,439,000	$ 841,000
Research & development	78,000	55,000	208,000	186,000
Total golf costs	628,000	422,000	1,647,000	1,027,000
Marketing & promotion	479,000	493,000	1,186,000	1,246,000
Administrative-direct	55,000	53,000	168,000	114,000

Total SG&A-direct	534,000	546,000	1,354,000	1,360,000
Allocated corporate costs	60,000	64,000	205,000	211,000

Total golf costs increased in 2001 primarily due to an increase in the amount of cost of goods sold related to increased sales, and an increase in manufacturing overhead related to the plant facilities into which Penley relocated in June 2000.

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 utilizes both fixed rate and variable rate debt. The following table presents principal maturities and related weighted average interest rates of the Company's long-term fixed rate and variable rate debt for the fiscal years ended June 30.

	2001	2002	Total
Fixed rate debt	$14,000	$21,000	$35,000
Weighted average interest rate rate	9.0%	8.7%	8.8%
Variable rate debt	$19,000	$1,607,000	$1,626,000
Weighted average interest rate	10.0%	10.0%	10.0%

The amounts for 2001 relate to the three months ending June 30, 2001. This table does not include the principal maturities related to the Assessment District Obligation-In Default.

The Company's unconsolidated subsidiary, UCV, has variable rate debt of $33,000,000 as of March 31, 2001 for which the interest rate was 8.5 percent. However, the combination of a floor established by the lender and a cap purchased by UCV has resulted in the rate being fixed at 8.5 percent for the initial term of the loan. The principal cash flows for each of UCV's fiscal years ending March 31 is: 2002- none; 2002 and in total- $33,000,000.

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

PART II

OTHER INFORMATION

ITEM 1. Legal Proceedings

As of March 31, 2001, other than as described in Note 4 of Notes to the Consolidated Condensed Financial Statements 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, 2000.

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

On December 22, 2000 the Company held its annual shareholder meeting in which the following item was voted upon:

	Tabulation of Votes		
	For	Against	Abstain
Election of Directors:			
Harold S. Elkan	23,529,984	0	54,166
Steven R. Whitman	23,529,888	0	54,262
Patrick D. Reiley	23,530,388	0	53,762
James E. Crowley	23,530,550	0	53,600
Robert A. MacNamara	23,530,450	0	53,700

ITEM 5. Other Information

NONE

ITEM 6. Exhibits & Reports on Form 8-K

(a) Reports on Form 8-K: NONE

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: May 14, 2001

By:/s/ Steven R. Whitman

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

Date: May 14, 2001