SPORTS ARENAS INC
Form 10-Q
May 15, 2002

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, 2002

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 X No _

The number of shares outstanding of the issuer's only class of common stock ($.01 par value) as of April 30, 2002 was 27,250,000 shares.

SPORTS ARENAS, INC.

FORM 10-Q

QUARTER ENDED MARCH 31, 2002

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Part I - Financial Information:

SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS
(Unaudited)

	March 31, 2002	June 30, 2001
Current assets:		
Cash and cash equivalents	$ 132,984	$ 515,204
Receivables	416,388	324,912
Inventories	681,398	585,111
Prepaid expenses	35,614	61,365
Total current assets	1,266,384	1,486,592
Receivables due after one year:		
Note receivable- affiliate, net	--	--

Property and equipment, at cost:		
Equipment and leasehold improvements	2,345,406	2,345,406
Less accumulated depreciation and amortization	(1,234,128)	(1,060,626)
Net property and equipment	1,111,278	1,284,780
Other assets:		
Intangible assets, net	46,605	150,657
Investments	312,446	405,446
Other	90,699	120,999
	449,750	677,102
	$ 2,827,412	$ 3,448,474

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

LIABILITIES AND SHAREHOLDERS' DEFICIT
(Unaudited)

	March 31, 2002	June 30, 2001
Current liabilities:		
Notes payable-short term, related party .	$ 445,000	$ 1,250,000
Current portion of long-term debt	13,000	32,000
Accounts payable	719,313	708,307
Accrued payroll and related expenses	246,246	195,367
Accrued interest	267,032	203,578
Other liabilities	156,998	183,466
Total current liabilities	1,847,589	2,572,718
Long-term debt, excluding current portion ..	7,091	13,942
Distributions received in excess of basis in investment	17,558,810	15,792,373
Other liabilities	180,000	144,000
Minority interest in consolidated subsidiary	827,677	852,677

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	(17,304,812)	(15,638,293)
	(15,302,263)	(13,635,744)
Less note receivable from shareholder ...	(2,291,492)	(2,291,492)
Total shareholders' deficit	(17,593,755)	(15,927,236)
Commitments and contingencies (Note 5)		
	$ 2,827,412	$ 3,448,474

See accompanying notes to consolidated condensed financial statements.

SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2002 AND 2001
(Unaudited)

	2002	2001
Revenues:		
Bowling	$ 516,454	$ 534,812
Rental	54,860	65,331
Golf	741,226	419,576
Other	139,059	34,618
Other-related party	46,659	44,763
	1,498,258	1,099,100
Costs and expenses:		
Bowling	362,329	429,419
Rental	54,841	59,383
Golf	722,769	661,116
Development	--	42,021
Selling, general, and administrative	680,971	832,247
Depreciation and amortization	71,189	63,254
Impairment loss on deferred lease costs .	3,000	--
	1,895,099	2,087,440

Loss from operations	(396,841)	(988,340)
Other income (charges):		
Investment income-related party	(257)	8,529
Investment income-other	--	1,609
Interest expense:		
Development activities	--	(77,159)
Other and amortization of finance costs	(26,325)	(50,483)
Equity in income of investees	14,729	74,929
	(11,853)	(42,575)
Net loss	$ (408,694)	$ (1,030,915)
Basic and diluted net loss per common share (based on 27,250,000 weighted average common shares outstanding)	$(0.01)	$(0.04)

See accompanying notes to consolidated condensed financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
NINE MONTHS ENDED MARCH 31, 2002 AND 2001
(Unaudited)

	2002	2001
Revenues:		
Bowling	$ 1,346,222	$ 1,781,075
Rental	172,258	388,078
Golf	1,528,725	950,205
Other	294,834	113,052
Other-related party	139,043	133,555
	3,481,082	3,365,965
Costs and expenses:		
Bowling	1,028,624	1,472,475
Rental	170,758	203,534
Golf	1,628,971	1,726,131
Development	--	127,013
Selling, general, and administrative	1,990,108	2,484,598
Depreciation and amortization	214,041	228,065
Impairment loss on deferred lease costs	44,915	--
	5,077,417	6,241,816

Loss from operations	(1,596,335)	(2,875,851)
Other income (charges):		
Investment income:		
Related party	15,971	15,792
Other	1,807	1,609
Interest expense:		
Development activities	--	(207,438)
Other and amortization of finance costs	(74,410)	(341,157)
Gain on sale of office building	--	2,764,483
Gain on sale of bowling center building	--	482,487
Equity in income (loss) of investees	(13,552)	180,374
	(70,184)	2,896,150
Net income (loss)	$ (1,666,519)	$ 20,299
Basic and diluted net income (loss) per common share (based on 27,250,000 weighted average common shares outstanding)	$(0.06)	$0.00

See accompanying notes to consolidated condensed financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED MARCH 31, 2002 AND 2001
(Unaudited)

	2002	2001
Cash flows from operating activities:		
Net income (loss)	$ (1,666,519)	$ 20,299
Adjustments to reconcile net income (loss) to the net cash used by operating activities:		
Amortization of deferred financing costs	--	18,846
Depreciation and amortization	214,041	228,065
Equity in (income) loss of investees	13,552	(180,374)
Deferred income	36,000	36,000
Impairment loss on deferred lease costs	44,915	--
Gain on sale of assets	--	(3,246,970)
Interest accrued on assessment district obligations	--	207,438
Changes in assets and liabilities:		
Increase in receivables	(91,476)	(20,792)
Increase in inventories	(96,287)	(50,055)
Decrease in prepaid expenses	25,751	63,259
Increase (decrease) in accounts payable	11,006	(39,678)

Increase in accrued expenses	87,865	549,950
Other	58,263	28,996
Net cash used by operating activities	(1,362,889)	(2,385,016)
Cash flows from investing activities:		
Decrease in notes receivable	--	73,866
Capital expenditures	--	(375,039)
Increase in development costs on undeveloped land	--	(30,755)
Proceeds from sale of office building	--	1,662,337
Proceeds from bowling center building	--	2,047,328
Distribution to holder of minority interest	(25,000)	--
Distributions from investees	1,805,820	1,059,000
Proceeds from assignment of subleasehold interest	30,700	--
Contributions to investees	--	(200,000)
Net cash provided by investing activities	1,811,520	4,236,737
Cash flows from financing activities:		
Scheduled principal payments on long-term debt	(25,851)	(179,029)
Extinguishment of long-term debt	--	(1,650,977)
Proceeds from short-term notes payable	450,000	1,200,000
Payments on short-term notes payable	(1,255,000)	(950,000)
Other	--	(22,598)
Net cash used by financing activities	(830,851)	(1,602,604)
Net increase (decrease) in cash and cash equivalents	(382,220)	249,117
Cash and cash equivalents, beginning of year	515,204	13,961
Cash and cash equivalents, end of year	$ 132,984	$ 263,078

See accompanying notes to consolidated condensed financial statements.

SPORTS ARENAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
MARCH 31, 2002 AND 2001
(Unaudited)

1. The information furnished reflects all adjustments 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. All adjustments were of a normal recurring nature.

2. Certain prior period amounts have been reclassified to conform to the presentation used in the current period.

3. Due to the seasonal fluctuations of the bowling and golf club shaft manufacturing operations, the financial results for the interim periods ended March 31, 2002 and 2001, are not necessarily indicative of operations

for the entire year.

4. Investments:

(a) Investments consist of the following:

	March 31, 2002	June 30, 2001
Vail Ranch Limited Partnership (equity method)	$ 312,446	$ 405,446
Investment in UCV, L.P. classified as liability- Distributions received in excess of basis in investment	$17,558,810	$15,792,373

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,:

	2002	2001
UCV, L.P.	$ 79,448	$225,374
Vail Ranch Limited Partnership	(93,000)	(45,000)
	$(13,552)	$180,374

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

	2002	2001
UCV, L.P.	$1,805,820	$1,059,000
Vail Ranch Limited Partnership	--	--
	$1,805,820	$1,059,000

(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, 2001 and 2000 are as follows:

	Nine Months		Three Months	
	2002	2001	2002	2001
Revenues	$4,048,000	$3,792,000	$1,365,000	$1,271,000
Operating and general and administrative costs	1,255,000	1,226,000	414,000	377,000
Depreciation	13,000	16,000	6,000	5,000
Interest expense	2,621,000	2,099,000	876,000	709,000
Net income	159,000	451,000	69,000	180,000

As disclosed in the annual financial statements for the year ended June 30, 2001, the Company performs management services and development services for UCV pursuant to separate agreements with UCV. The Company believes that the terms of these agreements are no less favorable to the Company or UCV than could be obtained with an independent third party.

In March 2002, UCV refinanced its $33,000,000 note payable with two loans totaling $38,000,000. Each of the loans matures April 1, 2003 but provides for a six month extension upon meeting certain financial criteria.

The first deed of trust is $36,000,000 and provides for monthly payments equal to interest plus principal based on a 30 year amortization schedule. Interest is based on an annual interest rate of 300 basis points above the greater of the 30-Day LIBOR rate or 2.4 percent, adjusted monthly. The current monthly payment of principal and interest is $202,151 based on a 5.4% annual interest rate. The loan may be repaid in full at any time subject to a fee of one percent if paid within the first six months and .75 percent thereafter. UCV paid a fee to cap the base rate of LIBOR at 4 percent, which effectively caps the maximum interest rate charged at 7 percent over the term. This note is collateralized by UCV's land, buildings and leases.

The second deed of trust is $2,000,000 and provides for monthly payments of interest only at an annual rate of 12-1/2 percent. This loan may be repaid in full at any time subject to a fee equal to the difference between $185,000 and the amount of interest paid from inception to the loan payoff date. This loan is collateralized by UCV's land, buildings, and leases and the ownership interests of UCV's partners.

The proceeds of the new loans, after extinguishing the $33,000,000 note payable were utilized to: pay loan costs of $1,129,544 and pay distributions to the partners of $3,400,000 in March 2002.

The refinancing resulted in charges of $335,042 related to 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, 2002. The Company's equity in the extraordinary loss of UCV will be recorded in the Company's fourth quarter ending June 30, 2002.

5. Intangible Assets:

On March 20, 2002, the Company subsidiary, Downtown Properties Development Corporation (DPDC), transferred ownership of its sublessor interests in a parcel of land that is subleased to individual owners of a condominium project based on agreements entered into in October 2001 and approved by the Bureau of Indian Affairs on March 20, 2002. DPDC received a note receivable of $37,500 as consideration for the sublessor interest that DPDC then assigned to the master lessors for a reduction in amounts owed by DPDC to the master lessors. DPDC still owes the master lessors $66,424 plus interest from November 1, 2001. Once this amount is paid, the Company will be released from any further liability under the master lease. As a result of these agreements, the Company recorded a $44,915 impairment loss for a portion of the unamortized balance ($75,615) of the deferred lease costs related to this sublessor interest and discontinued amortizing the deferred lease costs effective October 2001.

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

	Three Months		Nine Months	
	2002	2001	2002	2001
Rents	$ 36,000	$41,000	$119,000	$124,000

Costs	36,000	40,000	116,000	122,000
Impairment loss	3,000	--	45,000	--
Depreciation	--	--	--	1,000
Income from operations	(3,000)	1,000	(42,000)	1,000
Interest expense	--	--	2,000	--
Income from continuing operations	$ (3,000)	$ 1,000	$(44,000)	1,000

6. Contingencies:

The Company is involved in 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. Short-term notes payable:

On November 15, 2001, the Company borrowed an additional $150,000 from the Company's partner in UCV. In March 2002 the Company paid $955,000 of the note payable.

As disclosed in the financial statements for the year ended June 30, 2001, the Company has received other loans from this partner. Although the terms of these loans are likely to be comparable to the loan terms from an independent third party, it is unlikely that the Company could obtain a similar loan from an independent third party.

On January 11, 2002, the Company borrowed $300,000 from Harold S. Elkan, the Company's President and, indirectly, the Company's majority shareholder, pursuant to a short term loan agreement that is due on demand but no later than April 5, 2002. The loan bears interest at ten percent (10%) per annum and is payable monthly. Although the terms of this note are likely to be comparable to the loan terms from an independent third party, it is unlikely that the Company could obtain a similar loan from an independent third party. The note was paid in March 2002.

7. Other:

On January 1, 2002, the Company agreed to extend the due date of the unsecured loans to Harold S. Elkan from January 1, 2002 to January 1, 2003.

8. Business segment information:

The Company operates principally in four business segments: bowling centers, commercial real estate rental, real estate development, and golf club shaft manufacturing. Other revenues, which are not part of an identified segment, consist of property management and development fees (earned from both a property 50 percent owned by the Company and a property in which the Company has no ownership) and commercial brokerage. The following is summarized information about the Company's operations by business segment.

	Bowling	Real Estate Rental	Real Estate Development	Golf	Una An
NINE MONTHS ENDED MARCH 31, 2002:					
Revenues	$ 1,346,222	$ 172,258	$ --	$ 1,528,725	$
Depreciation and amortization...	7,470	40,539	--	128,322	
Interest expense	--	1,662	--	--	
Equity in income (loss) of investees	--	79,448	(93,000)	--	
Impairment loss................	--	44,915	--	--	
Segment profit (loss)	47,459	(6,168)	(97,000)	(1,461,302)	
Investment income					
Net loss					
NINE MONTHS ENDED MARCH 31, 2001:					
Revenues	$ 1,781,075	$ 421,063	$ --	$ 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	3,054,123	(396,451)	(2,373,370)	
Investment income					
Net income					
THREE MONTHS ENDED MARCH 31, 2002:					
Revenues	$ 516,454	$ 54,860	$ --	$ 741,226	$
Depreciation and amortization...	2,490	13,355	--	42,774	
Interest expense	--	--	--	--	
Equity in income (loss) of investees	--	34,729	(20,000)	--	
Impairment loss................	--	3,000	--	--	
Segment profit (loss)	61,845	18,393	(20,000)	(485,721)	
Investment income					
Net loss					
THREE MONTHS ENDED MARCH 31, 2001:					
Revenues	$ 534,812	$ 65,331	$ --	$ 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)	(14,840)	82,048	(140,180)	(845,460)	
Investment income					
Net loss					

	Nine Months	Three Months

	2002	2001	2002	2001
Revenues per segment	$3,481,082	$3,398,950	$1,498,258	$1,099,100
Intercompany rent eliminated	--	(32,985)	--	--
Consolidated revenues	$3,481,082	$3,365,965	$1,498,258	$1,099,100

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

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

Liquidity and Capital Resources

The independent auditors' report dated September 7, 2001 included in our June 30, 2001 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 14 to the consolidated financial statements, the Company has suffered recurring losses, has a working capital deficiency and shareholders' deficit, 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 14. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Management estimates negative cash flow of $100,000 to $300,000 in total for the remaining quarter of the year ending June 30, 2002 from operating activities after deducting capital expenditures and principal payments on notes payable and adding estimated distributions from UCV.

The short-term loan from the Company's partner in UCV is due on demand. The Company is exploring selling its partner a portion of the Company's interest in UCV in satisfaction of the remaining loan obligations. At this point management is unable to assess the likelihood a transaction will be consummated.

Management expects continuing cash flow deficits until Penley Sports develops sufficient sales volume to become profitable. Although, there can be no assurances that Penley Sports will ever achieve profitable operations, management estimates that a combination of continued increases in the sales of Penley Sports and reduction of its operating costs will result in Penley Sports and the Company achieving a breakeven level of operations at the end of the next two quarters.

Management is currently evaluating other sources of working capital including the sale of assets or obtaining additional investors in Penley Sports. Management has not assessed the likelihood of any other sources of long-term or short-term liquidity. If the Company is not successful in obtaining other sources of working capital this could have a material adverse effect on the Company's ability to continue as a going concern. However, management believes it will be able to meet its financial obligations for the next twelve months.

The Company has a working capital deficit of $581,205 at March 31, 2002, which is a $504,921 decrease from the working capital deficit of $1,086,126 at June 30, 2001. The decrease in working capital deficit is primarily attributable to the distributions the Company received from UCV which were partially offset by the cash used by operating activities for the nine months ended March 31, 2002 and repayments of short term debt. The following is a schedule of the cash provided (used) before changes in assets and liabilities, segregated by business segments:

	2002	2001	Change
Bowling	$ 55,000	$ (226,000)	$ 281,000
Rental	--	119,000	(119,000)
Golf	(1,334,000)	(2,260,000)	926,000
Development	(4,000)	(144,000)	140,000
General corporate expense and other	(76,000)	(405,000)	329,000
Cash used by continuing operations .	(1,359,000)	(2,916,000)	1,557,000
Capital expenditures, net of financing	--	(406,000)	406,000
Principal payments on long-term debt	(26,000)	(179,000)	153,000
Cash used	(1,385,000)	(3,501,000)	2,116,000
Distributions received from investees	1,806,000	1,059,000	747,000

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Critical Accounting Policies

In response to the SEC's release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies", the Company has identified its most critical accounting policy as that related to the carrying value of its long-lived assets. Any event or circumstance that indicates to the Company an impairment of the fair value of any asset is recorded in the period in which such event or circumstance becomes known to the Company. During the nine months ended March 31, 2002 no such event or circumstance occurred that would, in the opinion of management, signify the need for a material reduction in the carrying value of any of the Company's assets, except as it relates to the impairment of the deferred lease costs.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The Company is required to adopt the provisions of SFAS No. 141 immediately. The adoption of SFAS No. 141 will not have a material effect on the Company's financial statements.

In June 2001, the FASB issued SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The Company is required to adopt Statement No. 142 effective July 1, 2002. As of March 31, 2002, the Company does not have any goodwill, intangible assets or unamortized negative goodwill. The Company does not believe SFAS No. 142 will have a material impact on the Company's financial statements.

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 and requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company does not believe SFAS No. 143 will have a material impact on the Company's financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes both SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions (Opinion 30), for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions in SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS 121. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001.

Management does not expect the adoption of SFAS No. 144 for long-lived assets held for use to have a material impact on the Company's financial statements because the impairment assessment under SFAS No. 144 is largely unchanged from SFAS No. 121. The provisions of the Statement for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. Therefore, management cannot determine the potential effects that adoption of SFAS 144 will have on the Company's financial statements.

"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

With the exception of historical information (information relating to the Company's financial condition and results of operations at historical dates or for historical periods), the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements that necessarily are based on certain assumptions and are subject to certain risks and uncertainties. These forward-looking statements are based on management's expectations as of the date hereof, and the Company does not undertake any responsibility to update any of these statements in the future. Actual future performance and results could differ from that contained in or suggested by these forward-looking statements as a result of the factors set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in the Company's filings with the Securities and Exchange Commission.

Results of Operations

The following is a summary of the changes in the results of operations of the nine and three-month periods ended March 31, 2002 compared to the same period in 2001 and a discussion of the significant changes:

Nine Months Ended March 31, 2002 versus 2001

	Bowling	Rental Operation	Real Estate Development	Golf	Unall And
Revenues	$ (434,853)	$ (248,805)	--	$ 578,520	$
Costs	(443,851)	(32,776)	(127,013)	(97,160)	
SG&A-direct	(134,658)	--	--	(227,028)	(
SG&A-allocated	(62,064)	(15,000)	(13,000)	(26,000)	
Depreciation and amortization	(25,605)	(16,731)	--	20,833	
Impairment loss	--	44,915	--	--	
Interest expense	(91,117)	(79,331)	(207,438)	(4,193)	
Equity in investees	--	(145,926)	(48,000)	--	
Gain on sale	(482,487)	(2,764,483)	--	--	
Segment profit (loss)	(160,045)	(3,060,291)	299,451	912,068	
Investment income					
Loss from operations					

Three Months Ended March 31, 2002 versus 2001

	Rental Bowling	Real Estate Operation	Development	Golf	Unall And
Revenues	$ (18,358)	$ (10,471)	--	$ 321,650	$
Costs	(67,090)	(4,542)	(42,021)	61,653	
SG&A-direct	(19,856)	--	--	(105,842)	
SG&A-allocated	(8,097)	--	(6,000)	1,000	
Depreciation and amortization	--	(474)	--	5,916	
Impairment loss	--	3,000	--	--	
Interest expense	--	--	(77,159)	(816)	
Equity in investees	--	(55,200)	(5,000)	--	
Segment profit (loss)	76,685	(63,655)	120,180	359,739	
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 $32,985 in the nine month period.

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 for the nine and three-month periods ended March 31, 2002 compared to the same periods in 2001:

	Nine-Month Period			Th
	Grove	Valley	Combined	Grove
Revenues	$ (3,379)	$(431,474)	(434,853)	$ (17,757)
Costs	(124,016)	(319,835)	(443,851)	(64,366)
SG&A-direct	(59,406)	(75,252)	(134,658)	(20,253)
SG&A-allocated	(32,364)	(29,700)	(62,064)	(8,697)
Depreciation and amortization	--	(25,605)	(25,605)	--
Interest expense	--	(91,117)	(91,117)	--
Gain on sale	--	(482,487)	(482,487)	--
Segment profit (loss)	212,407	(372,452)	(160,045)	75,559

The following is a comparison of the operations of the Grove Bowl to the prior year. The number of games bowled decreased by 14% in each of the nine and three month periods in 2002. This decrease was partially offset by an increase in the average price received for games bowled of 12% in each of the nine and three month periods in 2002. Bowl costs decreased in the nine and three month periods in 2002 primarily due to decreases in utility rates of $95,000 and $32,000 in the nine and three month periods of 2002, respectively. SG&A costs decreased primarily due to decreases in payroll ($34,000 and $23,000 in the nine and three month periods, respectively) and promotion costs ($19,000 in the nine month period).

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 (UCV), a subleasehold interest in land underlying a condominium project, which was assigned to a third party effective March 20, 2002, the sublease of a portion of the Penley factory and other miscellaneous rents received on undeveloped land, which was sold in May 2001.

The following is a summary of the changes in operations:

	Nine Month Period			Th
	Office	Other	Combined	Office
Revenues	$ (243,521)	$ (5,284)	$ (248,805)	-
Costs	(52,734)	19,958	(32,776)	(1,
SG&A-allocated	(15,000)	--	(15,000)	-
Depreciation and amortization	(15,783)	(948)	(16,731)	-
Impairment loss	--	44,915	44,915	-
Interest expense	(80,993)	1,662	(79,331)	-
Equity in income of UCV	--	(145,926)	(145,926)	-

Gain on sale	(2,764,483)	--	(2,764,483)	-
Segment profit (loss)	(2,843,494)	(216,797)	(3,060,291)	1,

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 revenues decreased by $17,000 in the nine month period of 2002 related to this easement. Other than this change, other rental revenues increased by $18,000 and decreased by $4,000 in the nine and three month periods, respectively, and other rental costs increased in $25,000 and $1,000 in the nine and three month periods, respectively, related to the sublease for the Penley factory. Approximately 10,000 square feet of the Penley factory space (38,000 square feet) was subleased commencing in November 2000 under a lease that expires in October 2002.

The equity in income of UCV decreased in the nine and three month periods primarily due to increases in interest expense and other costs of UCV that were only partially offset by increases in revenues. The following is a summary of the changes in the operations of UCV, LP in the nine and three months periods of 2002 compared to the prior period:

	Nine Months	Three Months
Revenues	$ 256,000	$ 94,000
Costs	29,000	37,000
Depreciation	(3,000)	1,000
Interest and amortization		
of loan costs	522,000	167,000
Net income	(292,000)	(111,000)

Rental income of UCV increased in both periods primarily due to a 6% increase in the average rental rate plus a decrease in the vacancy rate from 2.4% to 1.5% in the nine month period and from 2.5% to 2.0% in the three month period. UCV's interest expense increased primarily due to an increase in long-term debt in March 2001. UCV increased its long-term debt in March 2001 by $3,960,510.

In March 2002, UCV refinanced its $33,000,000 of notes payable with loans totaling $38,000,000. The average interest rate of the two new loans is approximately 5.8% compared to a 8.5% rate for the old loan. As a result of the reduced interest, the interest expense and amortization of the loans fees of the new $38,000,000 of loans will be approximately the same as the old $33,000,000 loan.

REAL ESTATE DEVELOPMENT OPERATIONS:

Development costs primarily consisted of legal costs incurred to contest the City of Temecula's attempts to down-zone the undeveloped land owned by Old Vail Partners and property taxes on the undeveloped land. Interest expense related to development activities primarily related to interest accrued on assessment district obligations of Old Vail Partners. The undeveloped land was sold in June 2001.

The increase in the equity in loss of Vail Ranch Limited Partners (VRLP), relates to the increase in the loss from the operation of the partially completed shopping center for which the first store commenced operations in July 2000.

GOLF OPERATIONS:

Prior to January 2000, golf club 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 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 2002 and 2001:

	Three Months		Nine Months	
	2002	2001	2002	2001
Costs of goods sold and manufacturing overhead	$ 668,000	$ 583,000	$1,460,000	$1,518,000
Research & development	55,000	78,000	169,000	208,000
Total golf costs	723,000	661,000	1,629,000	1,726,000
Marketing & promotion	365,000	451,000	947,000	1,113,000
Administrative-direct	35,000	55,000	107,000	168,000
Total SG&A-direct	400,000	506,000	1,054,000	1,281,000
Allocated corporate costs	61,000	60,000	179,000	205,000

Total golf costs increased in the three month period of 2002 primarily due to an increase in sales volume. Total golf costs for the nine month period of 2002 decreased due to cost cutting measures implemented in the second quarter to reduce manufacturing overhead.

Marketing and promotion expenses decreased by $166,000 in the nine month period primarily due to decreases in trade show expenses ($8,000), advertising ($84,000) and the tour program ($40,000). Marketing and promotion expenses decreased by $86,000 in the three month period primarily due to a reductions in advertising related expenses ($47,000), brochure development and printing ($25,000) and tour program expenses ($25,000).

Administrative expenses decreased in the three and nine month periods due to general reductions in all administrative costs.

OTHER:

Selling, general and administrative expenses decreased primarily due to a reduction of corporate office wages. In December 2000, the Company awarded a $100,000 bonus to Harold Elkan. There was no bonus in 2001.

Interest expense has decreased primarily due to a reduction in short term debt outstanding during the three and nine month periods of 2002 compared to 2001, and also a reduction in the average interest rate of the outstanding debt.

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.

	2002	2003	2004	Total	Fair Value (1)
Fixed rate debt	$13,000	$6,000	$1,000	$20,000	$20,000
Weighted average interest rate	12.6%	13.4%	13.6%	13.26%	
Variable rate debt	$445,000	--	--	$445,000	$445,000
Weighted average interest rate	5.8%	--%	--%	5.8%	

The amounts for 2002 relate to the three-months ending June 30, 2002.

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

The variable rate debt includes a $445,000 short term note payable that is due on demand, which for purposes of this calculation has been treated as though paid during the year ending June 30, 2002.

The Company's unconsolidated subsidiary, UCV, has two notes payable which mature April 1, 2003 as a result of a refinancing in March 2002. The first loan is variable rate debt of $36,000,000 for which the interest rate was 5.4 percent as of March 31, 2002. However, the combination of a floor established by the lender and a cap purchased by UCV which effectively caps the maximum rate on this loan at 7%. The scheduled principal payments for UCV's fiscal years ending March 31 2003 is $36,000,000. The estimated fair value of this debt is $36,000,000 based on the current rates offered for this type of loan with similar risks and maturities. The second loan of $2,000,000 is fixed rate debt at 12.5%. The scheduled principal payments for UCV's fiscal years ending March 31 2003 is $2,000,000. The estimated fair value of this debt is $2,000,000 based on the current rates offered for this type of loan with similar risks and maturities.

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, 2002, 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, 2001.

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 21, 2001 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	23,632,586	0	249,698
Steven R. Whitman	23,632,486	0	249,798
Patrick D. Reiley	23,632,635	0	249,649
James E. Crowley	23,632,935	0	249,349
Robert A. MacNamara	23,632,835	0	249,449

ITEM 5. Other Information

NONE

ITEM 6. Exhibits & Reports on Form 8-K

(a) Exhibits: NONE

(b) Reports on Form 8-K: NONE

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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, 2002

By:/s/ Steven R. Whitman

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

Date: May 14, 2002