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SPORTS ARENAS INC
Form 10-Q
February 14, 2001

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2000
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.)

5230 Carroll Canyon Road, Suite 310, 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 January 31, 2000 was 27,250,000 shares.

SPORTS ARENAS, INC.

FORM 10-Q

QUARTER ENDED DECEMBER 31, 2000

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS

	December 31 2000	June 30, 2000
	-----	-----
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 702,609	\$ 13,961
Current portion of notes receivable- affiliate	-	50,000
Other receivables	185,679	193,510
Inventories	283,846	304,906
Prepaid expenses	126,008	238,719
	-----	-----
Total current assets	1,298,142	801,096
	-----	-----

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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	2,079,029	2,347,767
	2,079,029	5,487,094
Less accumulated depreciation and amortization	(979,145)	(2,160,132)
Net property and equipment	1,099,884	3,326,962
Other assets:		
Undeveloped land, at cost	1,513,845	1,501,318
Intangible assets, net	170,247	246,123
Investments	534,446	564,446
Other	120,999	137,425
	2,339,537	2,449,312
	\$4,737,563	\$6,601,236

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

LIABILITIES AND SHAREHOLDERS' DEFICIT

	December 31, 2000	June 30, 2000
	(Unaudited)	(Unaudited)
Current liabilities:		
Assessment district obligation- in default	\$2,961,459	\$2,831,180
Notes payable-short term	2,050,000	1,350,000
Current portion of long-term debt	98,000	1,874,000
Accounts payable	683,942	796,483
Accrued payroll and related expenses	218,153	164,170
Accrued property taxes- in default	408,917	356,178
Accrued interest	125,955	41,079
Other liabilities	222,787	216,009
Total current liabilities	6,769,213	7,629,099
Long-term debt, excluding current portion	10,734	1,967,169

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Distributions received in excess of basis in investment	14,403,473	14,498,208
	-----	-----
Other liabilities	120,000	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	(17,989,591)	(19,040,805)
	-----	-----
	(15,987,042)	(17,038,256)
Less note receivable from shareholder	(2,291,492)	(2,291,492)
	-----	-----
Total shareholders' deficit	(18,278,534)	(19,329,748)
	-----	-----
Commitments and contingencies (Note 6)		
	\$4,737,563	\$6,601,236
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED DECEMBER 31, 2000 AND 1999
(Unaudited)

	2000	1999
	-----	-----
Revenues:		
Bowling	\$ 668,135	\$ 625,382
Rental	142,314	160,113
Golf	243,620	157,601
Other	44,152	32,290
Other-related party	44,441	42,635
	-----	-----
	1,142,662	1,018,021
	-----	-----
Costs and expenses:		
Bowling	509,679	501,494
Rental	63,168	61,638

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Golf	492,546	331,941
Development	43,712	28,980
Selling, general, and administrative	954,868	924,282
Depreciation and amortization	65,695	96,383
	-----	-----
	2,129,668	1,944,718
	-----	-----
Loss from operations	(987,006)	(926,697)
	-----	-----
Other income (charges):		
Investment income:		
Related party	7,263	10,053
Other	-	8,773
Interest expense:		
Development activities	(46,885)	(69,625)
Other and amortization of finance costs	(160,684)	(90,717)
Gain on sale of office building	2,764,483	-
Gain on sale of bowling center building	482,487	-
Equity in income of investees	50,283	102,210
	-----	-----
	3,096,947	(39,306)
	-----	-----
Net income (loss)	\$2,109,941	\$ (966,003)
	=====	=====
Basic and diluted net income (loss) per common share (based on 27,250,000 weighted average common shares outstanding)	\$0.08	(\$0.04)
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
SIX MONTHS ENDED DECEMBER 31, 2000 AND 1999
(Unaudited)

	2000	1999
	-----	-----
Revenues:		
Bowling	\$1,329,732	\$1,249,954
Rental	311,147	316,390
Golf	530,629	281,531
Other	78,434	60,747
Other-related party	88,792	85,334
	-----	-----
	2,338,734	1,993,956
	-----	-----
Costs and expenses:		
Bowling	1,043,056	1,036,264
Rental	132,451	124,380

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Golf	1,018,722	604,813
Development	84,992	90,313
Selling, general, and administrative	1,782,213	1,772,673
Depreciation and amortization	164,811	191,952
	-----	-----
	4,226,245	3,820,395
	-----	-----
Loss from operations	(1,887,511)	(1,826,439)
	-----	-----
Other income (charges):		
Investment income:		
Related party	7,263	19,973
Other	-	9,089
Interest expense:		
Development activities	(130,279)	(133,001)
Other and amortization of finance costs	(290,674)	(179,485)
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	105,445	243,299
	-----	-----
	2,938,725	(40,763)
	-----	-----
Net income (loss)	\$1,051,214	\$(1,867,202)
	=====	=====
Basic and diluted net income (loss) per common share (based on 27,250,000 weighted average common shares outstanding)	\$0.04	(\$0.07)
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED DECEMBER 31, 2000 AND 1999
(Unaudited)

	2000	1999
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$1,051,214	\$(1,867,202)
Adjustments to reconcile net loss to the net cash used by operating activities:		
Amortization of deferred financing costs	18,846	4,560
Depreciation and amortization	164,811	191,952
Equity in income of investees	(105,445)	(243,299)
Deferred income	24,000	24,000
(Gain) loss on sale of property	(3,246,970)	638
Interest accrued on assessment		

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district obligations	130,279	133,001
Changes in assets and liabilities:		
Decrease in receivables	14,032	5,474
Decrease in inventories	21,060	92,806
(Increase) decrease in prepaid expenses	29,035	(64,373)
Increase (decrease) in accounts payable	(112,541)	77,539
Increase in accrued expenses	198,376	9,573
Other	19,675	(2,286)
	-----	-----
Net cash used by operating activities	(1,793,628)	(1,637,617)
	-----	-----
Cash flows from investing activities:		
Decrease in notes receivable	73,866	36,479
Capital expenditures	(198,173)	(83,114)
Increase in development costs on undeveloped land	(12,527)	(17,278)
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	114,000	2,024,500
Contributions to investees	(100,000)	(19,460)
	-----	-----
Net cash provided by investing activities	3,586,831	2,131,489
	-----	-----
Cash flows from financing activities:		
Scheduled principal payments on long-term debt	(130,980)	(139,032)
Extinguishment of long-term debt	(1,650,977)	(75,927)
Proceeds from short-term notes payable	1,200,000	550,000
Payments on short-term notes payable	(500,000)	(550,000)
Other	(22,598)	(22,455)
	-----	-----
Net cash used by financing activities	(1,104,555)	(237,414)
	-----	-----
Net increase in cash and cash equivalents	688,648	256,458
Cash and cash equivalents, beginning of year	13,961	357,906
	-----	-----
Cash and cash equivalents, end of year	\$ 702,609	\$614,364
	=====	=====

See accompanying notes to consolidated condensed financial statements.

SPORTS ARENAS, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
 DECEMBER 31, 2000 AND 1999 (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.
2. Due to the seasonal fluctuations of the bowling and golf shaft manufacturing operations, the financial results for the interim periods ended December 31, 2000 and 1999, are not necessarily indicative of operations for the entire

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year.

3. Investments:

(a) Investments consist of the following:

	December 31, 2000	June 30, 2000
	-----	-----
Vail Ranch Limited Partnership (equity method)	\$ 534,446	\$ 564,446
	=====	=====
Investment in UCV, L.P. classified as liability - Distributions received in excess of basis in investment	\$14,403,473	\$14,498,208
	=====	=====

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

	2000	1999
	-----	-----
UCV, L.P.	\$135,445	\$ 268,299
Vail Ranch Limited Partnership	(30,000)	(25,000)
	-----	-----
	\$105,445	\$ 243,299
	=====	=====

The following is a summary of distributions received from investees:

	2000	1999
	-----	-----
UCV, L.P.	\$114,000	\$2,024,500
Vail Ranch Limited Partnership	--	--
	-----	-----
	\$114,000	\$2,024,500
	=====	=====

(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 six and three month periods ended September 30, 2000 and 1999 are as follows:

	Six Months		Three Months	
	2000	1999	2000	1999
	-----	-----	-----	-----
Revenues	\$2,521,000	\$2,365,000	\$1,286,000	\$1,206,000
Operating and general and administrative costs	849,000	837,000	442,000	444,000
Depreciation	11,000	13,000	5,000	7,000
Interest expense	1,390,000	978,000	708,000	501,000
Net income	271,000	537,000	131,000	254,000

On January 9, 2001, UCV signed a commitment letter with a lender to refinance the existing loan (\$28,585,399 balance as of December 31, 2000) with a \$33,000,000 loan. The new loan will be for an initial term of 18 months with two options to extend the maturity date for one year each. Monthly payments will be interest only at a rate based on LIBOR (not less than 6%) plus 2.50 points. The commitment requires UCV to pay a fee (currently estimated at \$40,000) to cap LIBOR at 7%. UCV estimates the proceeds from the refinancing will be approximately \$2,900,000 after loan

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costs and capital replacement reserves. UCV plans to use approximately \$900,000 of the proceeds to fund anticipated redevelopment planning costs that would be incurred prior to obtaining financing for the redevelopment. UCV plans to distribute the remaining \$2,000,000 to the partners. The Company is obligated to use fifty percent of its share of distributions from UCV, up to \$500,000, to make payments on its short-term note payable.

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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. Once the legal matters described below are resolved, 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 \$2,342,270 regarding delinquent assessment district payments (\$1,933,353) and property taxes (\$408,917). 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.

The delinquent principal, interest and penalties (\$1,933,353) 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 December 31, 2000. In addition, the consolidated balance sheet at December 31, 2000 includes \$408,917 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

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"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 shall be April 20, 2001. The sale is contingent on the buyer's due diligence, which must be completed by February 28, 2001.

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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 six month periods:

	Three Months		Six Months	
	2000	1999	2000	1999
Development costs	44,000	29,000	85,000	90,000
Allocated SG&A	6,000	-	11,000	12,000
Loss from operations	(50,000)	(29,000)	(96,000)	(102,000)
Interest expense- development	47,000	70,000	130,000	133,000
Loss from continuing operations	(97,000)	(99,000)	(226,000)	(235,000)
	=====	=====	=====	=====

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 repaid \$500,000 of the short term loan from the proceeds of the office building sale (Note 7a).

The Company has agreed in principle to repay principal on the short term loan from the proceeds of the following events: up to \$500,000 from any distributions received from proceeds of future refinancing of UCV; up to \$350,000 from distributions received from the sale of the 33 acres owned by Old Vail Partners, a general partnership; 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.

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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 of the office building, the Company is expecting to vacate the premises about March 31, 2001. 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: \$33,000 for the six 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.

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

	Three Months		Six Months	
	2000	1999	2000	1999
Rents	\$117,000	\$118,000	\$244,000	\$231,000
Costs	24,000	27,000	52,000	56,000
Allocated SG&A	9,000	9,000	15,000	15,000
Depreciation	-	21,000	16,000	41,000
	-----	-----	-----	-----
Income from operations	84,000	61,000	161,000	119,000
Interest expense	40,000	42,000	81,000	83,000
	-----	-----	-----	-----
Income from continuing operations	44,000	19,000	80,000	36,000
	=====	=====	=====	=====

(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

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and selling expenses of \$160,670. 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		Six Months	
	2000	1999	2000	1999
Revenues	\$222,000	\$258,000	\$460,000	\$536,000
Costs	146,000	165,000	317,000	369,000
Direct SG&A	41,000	57,000	104,000	131,000
Allocated SG&A	14,000	18,000	30,000	39,000
Depreciation	2,000	23,000	26,000	46,000
Income from operations	19,000	(5,000)	(17,000)	(49,000)
Interest expense	53,000	36,000	91,000	72,000
Income from continuing operations	(34,000)	(41,000)	(108,000)	(121,000)

7. 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)	-

8. 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.

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9. 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

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information about the Company's operations by business segment.

	Bowling	Real Estate Rental	Real Estate Development	Golf	Una An
SIX MONTHS ENDED DECEMBER 31, 2000:					

Revenues	\$ 1,329,732	\$ 344,132	\$ --	\$ 530,629	\$
Depreciation and amortization...	30,585	43,441	--	70,631	
Interest expense	91,117	80,993	130,279	3,377	
Equity in income (loss)					
of investees	--	135,445	(30,000)	--	
Gain on sale	482,487	2,764,483	--	--	
Segment profit (loss)	222,344	2,972,175	(256,271)	(1,528,010)	
Investment income					
Net income					

SIX MONTHS ENDED DECEMBER 31, 1999:

Revenues	\$ 1,249,954	\$ 348,190	\$ --	\$ 281,531	\$
Depreciation and amortization...	52,633	69,100	--	45,570	
Interest expense	72,136	83,428	134,022	7,906	
Equity in income (loss)					
of investees	--	268,299	(25,000)	--	
Loss on sale	--	--	(638)	--	
Segment profit (loss)	(350,783)	324,581	(261,973)	(1,338,212)	
Investment income					
Net loss					

THREE MONTHS ENDED DECEMBER 31, 2000:

Revenues	\$ 668,135	\$ 159,051	\$ --	\$ 243,620	\$
Depreciation and amortization...	4,743	13,829	--	37,046	
Interest expense	53,700	39,570	46,885	1,358	
Equity in income (loss)					
of investees	--	65,283	(15,000)	--	
Gain on sale	482,487	2,764,483	--	--	
Segment profit (loss)	377,724	2,863,250	(111,597)	(785,599)	
Investment income					
Net income					

THREE MONTHS ENDED DECEMBER 31, 1999:

Revenues	\$ 625,382	\$ 176,361	\$ --	\$ 157,601	\$
Depreciation and amortization...	25,963	34,696	--	23,368	
Interest expense	35,851	41,674	69,625	3,675	
Equity in income of investees ..	--	127,210	(25,000)	--	
Segment profit (loss)	(149,158)	156,563	(123,605)	(702,092)	
Investment income					
Net loss					

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	Six Months		Three Months	
	2000	1999	2000	1999
Revenues per segment	\$2,371,719	\$2,025,756	\$1,159,399	\$1,034,269
Intercompany rent eliminated	(32,985)	(31,800)	(16,737)	(16,248)
Consolidated revenues	\$2,338,734	\$1,993,956	\$1,142,662	\$1,018,021

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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 \$2,100,695 at December 31, 2000, which is a \$1,539,950 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 partially offset by the cash used by operating activities for the six months ended December 31, 2000. The following is a schedule of the cash provided (used) before changes in assets and liabilities, segregated by business segments:

	2000	1999	Change
Bowling	\$ (214,000)	\$ (297,000)	\$ 83,000
Rental	119,000	129,000	(10,000)
Golf	(1,457,000)	(1,293,000)	(164,000)
Development	(96,000)	(103,000)	7,000
General corporate expense and other	(315,000)	(192,000)	(123,000)
Cash used by continuing operations	(1,963,000)	(1,756,000)	(207,000)
Capital expenditures	(211,000)	(100,000)	(111,000)
Principal payments on long-term debt	(131,000)	(139,000)	8,000
Cash used	(2,305,000)	(1,995,000)	(310,000)
Distributions received from investees, net	14,000	2,005,000	(1,991,000)
Proceeds from sale of properties, net of extinguishment of debt	2,059,000	114,000	(1,945,000)

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

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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 December 31, 2000 was approximately \$1,933,000. The principal balance of the allocated portion of the bonds (\$1,384,153 as of December 31, 2000), and delinquent interest and penalties (\$1,577,306 as of December 31, 2000) are classified as "Assessment district obligation- in default" in the consolidated balance sheet. In addition, the consolidated balance sheet includes \$488,917 of delinquent property taxes and late fees as of December 31, 2000. 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. The options for additional extensions would require payments totaling \$75,000 to be applied to the amount due. 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 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.

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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 shall be April 20, 2001. The sale is contingent on the buyer's due diligence, which must be completed by February 28, 2001. The Company estimates the proceeds from the sale to the Company will be approximately \$1,300,000 after paying delinquent assessment district obligations and property taxes (\$2,342,000), selling expenses and other costs (\$558,000), distribution to minority interest holder of Old Vail Partners (\$1,150,000), and a development fee to Landgrant Corporation (\$1,200,000).

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 occupies approximately 5,000 square feet of space in the building under a lease that expires in September 2011. The Company is expecting to vacate the premises about March 31, 2001. 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

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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 January 9, 2001, UCV signed a commitment letter with a lender to refinance the existing loan (\$28,585,399 balance as of December 31, 2000) with a \$33,000,000 loan. The new loan will be for an initial term of 18 months with two options to extend the maturity date for one year each. Monthly payments will be interest only at a rate based on LIBOR (not less than 6%) plus 2.50 points. The commitment requires UCV to pay a fee (currently estimated at \$40,000) to cap LIBOR at 7%. UCV estimates the proceeds from the refinancing will be approximately \$2,900,000 after loan costs and capital replacement reserves. UCV plans to use approximately \$900,000 of the proceeds to fund anticipated redevelopment planning costs that would be incurred prior to obtaining financing for the redevelopment. UCV plans to distribute the remaining \$2,000,000 to the partners. The Company is obligated to use fifty percent of its share of distributions from UCV, up to \$500,000, to make payments on its short-term note payable.

Management estimates negative cash flow of \$1,000,000 to \$1,300,000 for the remaining quarters of the year ending June 30, 2001 from operating activities before adding an estimated \$1,000,000 distribution from UCV from the refinancing, the estimated sales proceeds of \$1,300,000 from the sale of the 33 acres of undeveloped land, and deducting \$850,000 of principal payments due on the short term note payable triggered by these 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

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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

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The following is a summary of the changes in the results of operations of the six-month and three-month periods ended December 31, 2000 to the same periods in 1999 and a discussion of the significant changes:

SIX MONTHS ENDED DECEMBER 31, 2000 VERSUS 1999

	Bowling	Rental Operation	Real Estate Development	Golf	Unallocated And Other
Revenues	\$ 79,778	\$ (4,058)	--	\$ 249,098	\$ 21,145
Costs	6,792	8,071	(5,321)	413,909	--
SG&A-direct	(336)	--	--	6,455	4,606
SG&A-allocated	(14,251)	--	(1,000)	(2,000)	17,251
Depreciation and amortization ..	(22,048)	(25,659)	--	25,061	(4,495)
Interest expense	18,981	(2,435)	(3,743)	(4,529)	100,193
Equity in investees	--	(132,854)	(5,000)	--	--
Gain on sale	482,487	2,764,483	638	--	--
Segment profit (loss)	573,127	2,647,594	5,702	(189,798)	(96,410)
Investment income					
Income from operations					

THREE MONTHS ENDED DECEMBER 31, 2000 VERSUS 1999

	Bowling	Rental Operation	Real Estate Development	Golf	Unallocated And Other
Revenues	\$ 42,753	\$ (17,310)	--	\$ 86,019	\$ 13,668
Costs	8,185	1,530	14,732	160,605	--
SG&A-direct	2,986	--	--	3,560	24,529
SG&A-allocated	(9,442)	--	6,000	(6,000)	9,442
Depreciation and amortization ..	(21,220)	(20,867)	--	13,678	(2,279)
Interest expense	17,849	(2,104)	(22,740)	(2,317)	56,539
Equity in investees	--	(61,927)	10,000	--	--
Gain on sale	482,487	2,764,483	--	--	--
Segment profit (loss)	526,882	2,706,687	12,008	(83,507)	(74,563)
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 \$1,185 and \$489 in the six and three month periods, respectively.

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 six-month and three-month periods ended December 31, 2000 to the same periods in 1999:

	Six-Month Period			Three-Month Period		
	Grove	Valley	Combined	Grove	Valley	Combined
Revenues	\$155,753	\$ (75,975)	\$ 79,778	\$78,497	\$ (35,744)	\$ 42,753
Costs	58,941	(52,149)	6,792	26,910	(18,725)	8,185

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SG&A-direct	25,971	(26,307)	(336)	19,279	(16,293)	2,986
SG&A-allocated	(5,151)	(9,100)	(14,251)	(5,542)	(3,900)	(9,442)
Depreciation and amortization	(1,895)	(20,153)	(22,048)	(465)	(20,755)	(21,220)
Interest expense	--	18,981	18,981	--	17,849	17,849
Gain on sale	--	482,487	482,487	--	482,487	482,487
Segment profit (loss)	77,887	495,240	573,127	38,315	488,567	526,882

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The declines in revenues and expenses at Valley Bowl are consistent with the changes in prior periods and indicative of the changes to operations once the Company decided to sell the real estate and close the bowling center.

Bowl revenues of Grove Bowl (Grove) increased by 21% in the three and six month periods primarily due to 12% and 14% increases in the number of games bowled in the three and six 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 7% and 6% increases in the average price of games bowled in the three and six month periods respectively.

Bowl costs of Grove increased primarily due to increases in utility costs of \$20,223 (94%) and \$56,159 (116%) in the three and six month periods, respectively. These increases were due to the increase in electric rates in San Diego. The Company is currently evaluating alternatives for a supplier of electricity that will significantly reduce the volatility in utility rates.

SG&A direct expenses increased at Grove primarily due to increases in promotion and advertising expenses of \$11,687 (34%) and 24,448 (29%) in the three and six month periods, respectively.

RENTAL OPERATIONS:

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. This decrease was partially offset in the six month period by a \$12,389 (5%) increase in the rental income from the office building attributable to a 12% increase in rental rates. The increase in rental rates in the three month period was offset by a 8% increase in office vacancies. Depreciation decreased in the six and three month periods due to the cessation of recording depreciation on the office building effective October 1, 2000, when the Company became committed to a plan to sell the office building. Rental costs increased due to an increase in the rent expense for the subleasehold interest.

The equity in income of UCV decreased primarily due to a decrease in UCV's net income of \$266,000 and \$124,000 in the six and three month periods, respectively. Rental income increased 7% in both the six and three month periods primarily due to an increase in the average rental rates. This increase was offset by increases in interest expense of \$412,000 and \$207,000 in the six and three month periods respectively. This increase related to the increase in financing in October 1999.

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 increased in the three month period due to an increase 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

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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 2000, and 1999:

	Three Months		Six Months	
	2000	1999	2000	1999
Costs of goods sold and manufacturing overhead	\$ 431,000	\$ 268,000	\$ 889,000	\$ 473,000
Research & development	62,000	64,000	130,000	132,000
Total golf costs	493,000	332,000	1,019,000	605,000
Marketing & promotion	362,000	383,000	707,000	753,000
Administrative-direct	53,000	29,000	114,000	62,000
Total SG&A-direct	415,000	412,000	821,000	815,000
Allocated corporate costs	83,000	89,000	145,000	147,000

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Total golf costs increased in 2000 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	\$43,000	\$20,000	\$63,000
Weighted average interest rate	9.5%	8.7%	9.2%
Variable rate debt	\$2,089,000	\$6,000	\$2,095,000
Weighted average interest rate	10.5%	10.5%	10.5%

The amounts for 2001 relate to the six 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 \$28,685,000 as of September 30, 2000 for which the interest rate was 9.0 percent. The principal cash flows for each of UCV's fiscal years ending March 31

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is: 2001- \$339,000; 2002- \$28,346,000; and \$28,685,000 in total.

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

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

As of December 31, 2000, 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) Exhibits: Financial Data Schedule

(b) 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: February 14, 2001

By:/s/ Steven R. Whitman

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

Date: February 14, 2001