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SPORTS ARENAS INC  
Form 10-Q  
February 19, 2002

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, 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.  
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(Exact name of registrant as specified in its charter)

Delaware 13-1944249  
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(State of Incorporation) (I.R.S. Employer I.D. No.)

7415 Carroll Road, Suite C, San Diego, California 92121  
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(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 January 31, 2002 was 27,250,000 shares.

SPORTS ARENAS, INC.

FORM 10-Q

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QUARTER ENDED DECEMBER 31, 2001

## INDEX

Part I - Financial Information:

Item 1.- Consolidated Condensed Financial Statements:

Unaudited Balance Sheets as of December 31, 2001 and June 30, 2001 .....	1-2
Unaudited Statements of Operations for the Three Months Ended December 31, 2001 and 2000 .....	3
Unaudited Statements of Operations for the Six Months Ended December 31, 2001 and 2000 .....	4
Unaudited Statements of Cash Flows for the Six Months Ended December 31, 2001 and 2000 .....	5
Notes to Financial Statements .....	6-9
Item 2.- Management's Discussion and Analysis of Financial Condition and Results of Operations .....	10-15
Item 3.- Quantitative and Qualitative Disclosures about Market Risk ...	15
Part II - Other Information .....	16
Signatures .....	17

### SPORTS ARENAS, INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED BALANCE SHEETS

	ASSETS (Unaudited)	
	December 31, 2001	June 30, 2001
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 17,444	\$ 515,204
Receivables	179,466	324,912
Inventories	521,704	585,111
Prepaid expenses	87,099	61,365
	-----	-----
Total current assets	805,713	1,486,592
	-----	-----
Receivables due after one year:		
Note receivable- affiliate, net	--	--
	-----	-----

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Property and equipment, at cost:		
Equipment and leasehold improvements	2,345,406	2,345,406
Less accumulated depreciation and amortization	(1,176,294)	(1,060,626)
	-----	-----
Net property and equipment	1,169,112	1,284,780
	-----	-----
Other assets:		
Intangible assets, net	89,626	150,657
Investments	332,446	405,446
Other	120,999	120,999
	-----	-----
	543,071	677,102
	-----	-----
	\$2,517,896	\$3,448,474
	=====	=====

1

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

LIABILITIES AND SHAREHOLDERS' DEFICIT  
(Unaudited)

	December 31, 2001	June 30, 2001
	-----	-----
Current liabilities:		
Notes payable-short term	\$ 1,400,000	\$1,250,000
Current portion of long-term debt	16,000	32,000
Accounts payable	667,418	708,307
Accrued payroll and related expenses	188,920	195,367
Accrued interest	249,640	203,578
Other liabilities	249,397	183,466
	-----	-----
Total current liabilities	2,771,375	2,572,718
	-----	-----
Long-term debt, excluding current portion	10,721	13,942
	-----	-----
Distributions received in excess of basis in investment	15,925,184	15,792,373
	-----	-----
Other liabilities	168,000	144,000
	-----	-----
Minority interest in consolidated subsidiary	827,677	852,677
	-----	-----

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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	(16,896,118)	(15,638,293)
	-----	-----
	(14,893,569)	(13,635,744)
Less note receivable from shareholder	(2,291,492)	(2,291,492)
	-----	-----
Total shareholders' deficit	(17,185,061)	(15,927,236)
	-----	-----
Commitments and contingencies (Note 5)		
	\$2,517,896	\$3,448,474
	=====	=====

See accompanying notes to consolidated condensed financial statements.

2

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

	2001	2000
	-----	-----
Revenues:		
Bowling	\$ 445,947	\$ 637,352
Rental	58,539	153,914
Golf	343,276	243,620
Other	117,636	44,152
Other-related party	46,315	44,441
	-----	-----
	1,011,713	1,123,479
	-----	-----
Costs and expenses:		
Bowling	319,376	509,679
Rental	57,207	74,868
Golf	407,133	512,418
Development	--	43,712
Selling, general, and administrative	656,374	904,113
Depreciation and amortization	71,189	65,695
Impairment loss on deferred lease costs	41,915	--
	-----	-----
	1,553,194	2,110,485
	-----	-----
Loss from operations	(541,481)	(987,006)

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Other income (charges):		
Investment income-related party	9,457	7,263
Interest expense:		
Development activities	--	(46,885)
Other and amortization of finance costs	(23,103)	(160,684)
Gain on sale of office building	--	2,764,483
Gain on sale of bowling center building	--	482,487
Equity in income of investees	5,020	50,283
	-----	-----
	(8,626)	3,096,947
	-----	-----
Net income (loss)	\$ (550,107)	\$2,109,941
	=====	=====
Basic and diluted net income (loss) per common share (based on 27,250,000 weighted average common shares outstanding)	\$ (0.02)	\$0.08
	=====	=====

See accompanying notes to consolidated condensed financial statements.

3

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

	2001	2000
	-----	-----
Revenues:		
Bowling	\$ 829,768	\$1,246,263
Rental	117,398	322,747
Golf	787,499	530,629
Other	155,775	78,434
Other-related party	92,384	88,792
	-----	-----
	1,982,824	2,266,865
	-----	-----
Costs and expenses:		
Bowling	666,295	1,043,056
Rental	115,917	144,151
Golf	906,202	1,065,015
Development	--	84,992
Selling, general, and administrative	1,309,137	1,652,351
Depreciation and amortization	142,852	164,811
Impairment loss on deferred lease costs	41,915	--
	-----	-----
	3,182,318	4,154,376
	-----	-----

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	-----	-----
Loss from operations	(1,199,494)	(1,887,511)
	-----	-----
Other income (charges):		
Investment income:		
Related party	16,228	7,263
Other	1,807	--
Interest expense:		
Development activities	--	(130,279)
Other and amortization of finance costs	(48,085)	(290,674)
Gain on sale of office building	--	2,764,483
Gain on sale of bowling center building	--	482,487
Equity in income (loss) of investees	(28,281)	105,445
	-----	-----
	(58,331)	2,938,725
	-----	-----
Net income (loss)	\$ (1,257,825)	\$ 1,051,214
	=====	=====
Basic and diluted net income (loss) per common share (based on 27,250,000 weighted average common shares outstanding)	\$ (0.05)	\$ 0.04
	=====	=====

See accompanying notes to consolidated condensed financial statements.

4

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

	2001	2000
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ (1,257,825)	\$ 1,051,214
Adjustments to reconcile net income (loss) to the net cash used by operating activities:		
Amortization of deferred financing costs	--	18,846
Depreciation and amortization	142,852	164,811
Equity in (income) loss of investees	28,281	(105,445)
Deferred income	24,000	24,000
Impairment loss on deferred lease costs	41,915	--
Gain on sale of assets	--	(3,246,970)
Interest accrued on assessment district obligations	--	130,279
Changes in assets and liabilities:		
Decrease in receivables	145,446	14,032
Decrease in inventories	63,407	21,060
(Increase) decrease in prepaid expenses	(25,734)	29,035
Decrease in accounts payable	(40,889)	(112,541)
Increase in accrued expenses	105,546	198,376

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Other	18,642	19,675
	-----	-----
Net cash used by operating activities	(754,359)	(1,793,628)
	-----	-----
Cash flows from investing activities:		
Decrease in notes receivable	--	73,866
Capital expenditures	--	(198,173)
Increase in development costs on undeveloped land	--	(12,527)
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	150,820	114,000
Contributions to investees	--	(100,000)
	-----	-----
Net cash provided by investing activities	125,820	3,586,831
	-----	-----
Cash flows from financing activities:		
Scheduled principal payments on long-term debt	(19,221)	(130,980)
Extinguishment of long-term debt	-	(1,650,977)
Proceeds from short-term notes payable	150,000	1,200,000
Payments on short-term notes payable	-	(500,000)
Other	-	(22,598)
	-----	-----
Net cash provided (used) by financing activities	130,779	(1,104,555)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(497,760)	688,648
Cash and cash equivalents, beginning of year	515,204	13,961
	-----	-----
Cash and cash equivalents, end of year	\$ 17,444	\$ 702,609
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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

- 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.
- Certain prior period amounts have been reclassified to conform to the presentation used in the current period.
- Due to the seasonal fluctuations of the bowling and golf club shaft manufacturing operations, the financial results for the interim periods ended December 31, 2001 and 2000, are not necessarily indicative of operations for the entire year.
- Investments:
  - Investments consist of the following:

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	December 31, 2001	June 30, 2001
	-----	-----
Vail Ranch Limited Partnership (equity method) .....	\$ 332,446	\$ 405,446
	=====	=====
Investment in UCV, L.P. classified as liability- Distributions received in excess of basis in investment .....	\$15,925,184	\$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 six-month periods ended December 31, :

	2001	2000
	-----	-----
UCV, L.P. ....	\$ 44,719	\$135,445
Vail Ranch Limited Partnership	(73,000)	(30,000)
	-----	-----
	\$ (28,281)	\$105,445
	=====	=====

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

	2001	2000
	-----	-----
UCV, L.P. ....	\$150,820	\$114,000
Vail Ranch Limited Partnership	--	--
	-----	-----
	\$150,820	\$114,000
	=====	=====

(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 six and three-month periods ended September 30, 2001 and 2000 are as follows:

	Six Months		Three Months	
	2001	2000	2001	2000
	-----	-----	-----	-----
Revenues	\$2,683,000	\$2,521,000	\$1,354,000	\$1,286,000
Operating and general and administrative costs	841,000	849,000	423,000	442,000
Depreciation	7,000	11,000	4,000	5,000
Interest expense	1,745,000	1,390,000	877,000	708,000
Net income	90,000	271,000	50,000	131,000

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.



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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.

### 6. Short-term notes payable:

On November 15, 2001, the Company borrowed an additional \$150,000 from the Company's partner in UCV. 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.

### 7. 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.

### 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.

7

	Bowling	Real Estate Rental	Real Estate Development	Golf	Una An
	-----	-----	-----	-----	-----
SIX MONTHS ENDED DECEMBER 31, 2001:					
Revenues .....	\$ 829,768	\$ 117,398	\$ --	\$ 787,499	\$
Depreciation and amortization...	4,980	27,184	--	85,548	
Interest expense .....	--	1,662	--	--	
Equity in income (loss)					
of investees .....	--	44,719	(73,000)	--	
Impairment loss .....	--	41,915	--	--	
Segment profit (loss) .....	(14,386)	(24,561)	(77,000)	(975,581)	
Investment income .....					

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Net loss.. .. .

SIX MONTHS ENDED DECEMBER 31, 2000:

Revenues .....	\$ 1,246,263	\$ 355,732	\$ --	\$ 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	2,972,075	(256,271)	(1,527,910)	
Investment income .....					
Net income .....					

THREE MONTHS ENDED DECEMBER 31, 2001:

Revenues .....	\$ 445,947	\$ 58,539	\$ --	\$ 343,276	\$
Depreciation and amortization...	2,490	13,355	--	42,774	
Interest expense .....	--	1,662	--	--	
Equity in income (loss) of investees .....	--	25,020	(20,000)	--	
Impairment loss.....	--	41,915	--	--	
Segment profit (loss) .....	39,187	(30,580)	(19,000)	(510,327)	
Investment income .....					
Net loss.....					

THREE MONTHS ENDED DECEMBER 31, 2000:

Revenues .....	\$ 637,352	\$ 170,651	\$ --	\$ 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	2,863,150	(111,597)	(785,499)	
Investment income .....					
Net income .....					

	Six Months		Three Months	
	2001	2000	2001	2000
Revenues per segment .....	\$1,982,824	\$2,299,850	\$1,011,713	\$1,140,216
Intercompany rent eliminated	--	(32,985)	--	(16,737)
Consolidated revenues .....	\$1,982,824	\$2,266,865	\$1,011,713	\$1,123,479

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### 9. Subsequent events:

(a) The Company has signed agreements to transfer its sublessor interests in a parcel of land that is subleased to individual owners of a condominium project. The agreements are subject to the approval of the Secretary of the Interior of the United States. Upon approval of the agreements, the Company is to receive a note receivable of \$37,500 as consideration for the sublessor interest that the Company will then assign to the master lessors for a reduction in amounts owed by the Company to the master lessors. On April 1, 2002 the Company will also pay 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 has recorded a \$41,915 impairment loss for a portion of the unamortized balance (\$75,615) of the deferred lease costs related to this sublessor interest and has discontinued amortizing the deferred lease costs during the three month period ended December 31, 2001 as the asset is considered for sale.

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

	Three Months		Six Months	
	2001	2000	2001	2000
Rents	\$41,000	\$41,000	\$ 83,000	\$82,000
Costs	39,000	40,000	80,000	81,000
Impairment loss	42,000	--	42,000	--
Depreciation	--	--	--	1,000
Income from operations	(40,000)	1,000	(39,000)	--
Interest expense	2,000	--	2,000	--
Income from continuing operations	\$(42,000)	\$ 1,000	\$(41,000)	--
	=====	=====	=====	=====

(b) 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.

(c) On January 18, 2002, UCV signed a commitment letter with a lender to refinance the existing loan (\$33,000,000 balance as of December 31, 2001) with a \$36,000,000 or \$37,000,000 loan, the amount of which is to be determined by UCV at closing. The new loan is to be for a term of 12 months. Monthly payments will be based on an interest rate equal to LIBOR (not less than 2.5%) plus 3.40 points plus principal related to a 30 year amortization schedule. The commitment requires UCV to pay a fee (currently estimated to be \$30,000) to cap LIBOR at 5% during the term of the loan. In addition to a 1% origination fee due to the lender at loan closing, an additional fee is due at repayment based on 1% of the loan balance if the loan is paid in months 1-6 and .75% of the loan balance if paid in months 7-12. UCV estimates the cash proceeds from the refinance will be either \$1,950,000 or \$2,950,000 depending on whether the loan is \$36,000,000 or \$37,000,000, respectively. UCV plans to distribute the proceeds to the partners. The Company has agreed to use \$750,000 of its share of the proceeds to pay a portion of the loan made to the Company by its partner

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in UCV.

(d) 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.

9

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

This discussion and analysis should be read in conjunction with the consolidated condensed financial statements (unaudited) and the related notes thereto in this Form 10-Q, and with the Company's most recent annual report on Form 10-K for the fiscal year ended June 30, 2001.

#### Liquidity and Capital Resources

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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 from operating activities after deducting capital expenditures and principal payments on notes payable of \$500,000 to \$600,000 in total for the remaining quarters of the year ending June 30, 2002. This estimate does not include any distributions that the Company may receive from the proceeds of the UCV refinance discussed below or use of the proceeds for the partial repayment of the short-term loans from its partner in UCV.

The short-term loan from the Company's partner in UCV is due on demand. After any partial repayment as a result of the UCV refinancing, the Company will still owe its partner in excess of \$700,000, including accrued interest. 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

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the sale of assets or obtaining additional investors in Penley Sports. Other than the distribution proceeds estimated from the refinance of UCV's debt discussed below, 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 \$1,965,662 at December 31, 2001, which is a \$879,536 increase from the working capital deficit of \$1,086,126 at June 30, 2001. The increase in working capital deficit is primarily attributable to the cash used by operating activities for the six months ended December 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	\$ (9,000)	\$ (214,000)	\$ 205,000
Rental	-	119,000	(119,000)
Golf	(891,000)	(1,457,000)	566,000
Development	(4,000)	(96,000)	92,000
General corporate expense and other	(117,000)	(315,000)	198,000
	-----	-----	-----
Cash used by continuing operations	(1,021,000)	(1,963,000)	942,000
Capital expenditures, net of financing	-	(211,000)	211,000
Principal payments on long-term debt	(19,000)	(131,000)	112,000
	-----	-----	-----
Cash used	(1,040,000)	(2,305,000)	1,265,000
	=====	=====	=====
Distributions received from investees	151,000	114,000	37,000
	=====	=====	=====

10

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.

On January 18, 2002, UCV signed a commitment letter with a lender to refinance the existing loan (\$33,000,000 balance as of December 31, 2001) with a \$36,000,000 or \$37,000,000 loan, the amount of which is to be determined by UCV at closing. The new loan is to be for a term of 12 months. Monthly payments will be based on an interest rate equal to LIBOR (not less than 2.5%) plus 3.40 points plus principal related to a 30 year amortization schedule. The commitment requires UCV to pay a fee (currently estimated to be \$30,000) to cap LIBOR at 5% during the term of the loan. In addition to a 1% origination fee due to the lender at loan closing, an additional fee is due at repayment based on 1% of the loan balance if the loan is paid in months 1-6 and .75% of the loan balance if paid in months 7-12. UCV estimates the cash proceeds from the refinance will be either \$1,950,000 or \$2,950,000 depending on whether the loan is \$36,000,000 or \$37,000,000, respectively. UCV plans to distribute the proceeds to the partners, of which the Company is entitled to one-half. The Company has agreed to use up to \$750,000 of its share of the proceeds to pay a portion of the loan made to the Company by its partner in UCV.

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### Critical Accounting Policies

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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 six months ended December 31, 2001 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

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In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") 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 has not yet assessed the impact of SFAS No. 143.

In August 2001, the Financial Accounting Standards Board 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.

11

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

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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

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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 six and three-month periods ended December 31, 2001 compared to the same period in 2000 and a discussion of the significant changes:

#### SIX MONTHS ENDED DECEMBER 31, 2001 VERSUS 2000

	Bowling	Rental Operation	Real Estate Development	Golf	Unallocate And Other
Revenues .....	\$ (416,495)	\$ (238,334)	\$ --	\$ 256,870	\$ 80,933
Costs .....	(376,761)	(28,234)	(84,992)	(158,813)	--
SG&A-direct .....	(114,802)	--	--	(121,186)	(140,211)
SG&A-allocated .....	(53,967)	(15,000)	(7,000)	(27,000)	102,967
Depreciation and amortization ..	(25,605)	(16,257)	--	14,917	4,986
Impairment loss .....	--	41,915	--	--	--
Interest expense .....	(91,117)	(79,331)	(130,279)	(3,377)	(68,764)
Equity in investees .....	--	(90,726)	(43,000)	--	--
Gain on sale .....	(482,487)	(2,764,483)	--	--	--
Segment profit (loss) .....	(236,730)	(2,996,636)	179,271	552,329	181,955
Investment income .....					
Income from operations .....					

#### THREE MONTHS ENDED DECEMBER 31, 2001 VERSUS 2000

	Bowling	Rental Operation	Real Estate Development	Golf	Unallocate And Other
Revenues .....	\$ (191,405)	\$ (112,112)	\$ --	\$ 99,656	\$ 75,358
Costs .....	(190,303)	(17,661)	(43,712)	(105,285)	--
SG&A-direct .....	(57,762)	--	--	(48,601)	(158,113)
SG&A-allocated .....	(31,337)	(9,000)	(7,000)	(26,000)	73,337
Depreciation and amortization ..	(2,253)	(474)	--	5,728	2,493
Impairment loss .....	--	41,915	--	--	--
Interest expense .....	(53,700)	(37,908)	(46,885)	(1,358)	(44,615)
Equity in investees .....	--	(40,263)	(5,000)	--	--
Gain on sale .....	(482,487)	(2,764,483)	--	--	--
Segment profit (loss) .....	(338,537)	(2,893,730)	92,597	275,172	202,256
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 and \$16,737 in the six and three month periods, respectively.

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### BOWLING OPERATIONS:

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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 six and three-month periods ended December 31, 2001 compared to the same periods in 2000:

	Six-Month Period			Three-Month Period		
	Grove	Valley	Combined	Grove	Valley	Combined
Revenues	14,378	(430,873)	(416,495)	19,178	(210,583)	(191,405)
Costs	(59,571)	(317,190)	(376,761)	(44,038)	(146,265)	(190,303)
SG&A-direct	(39,232)	(75,570)	(114,802)	(27,608)	(30,154)	(57,762)
SG&A-allocated	(23,667)	(30,300)	(53,967)	(17,737)	(13,600)	(31,337)
Depreciation and amortization	--	(25,605)	(25,605)	--	(2,253)	(2,253)
Interest expense	--	(91,117)	(91,117)	--	(53,700)	(53,700)
Gain on sale	--	(482,487)	(482,487)	--	(482,487)	(482,487)
Segment profit (loss)	136,848	(373,578)	(236,730)	108,561	(447,098)	(338,537)

The following is a comparison of the operations of the Grove Bowl to the prior year. Bowl revenues increased by 2% and 4% in the six and three month periods, respectively, primarily due to a 12-15% increase in the average price of games bowled. These increases were offset by an overall decrease in the number of games bowled of 14% and 12% in the six and three month periods, respectively. Open play games bowled decreased by 15% and 13% in the six and three month periods, respectively, and league games bowled decreased by 3% and 8% respectively. Bowl costs decreased primarily due to decreases in utility rates. SG&A costs decreased primarily due to decreases in payroll and promotion costs.

### RENTAL OPERATIONS:

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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, the sublease of a portion of the Penley factory and other miscellaneous rents received on undeveloped land.

The following is a summary of the changes in operations:

	Six Month Period			Three Month Period		
	Office	Other	Combined	Office	Other	Combined
Revenues	(243,521)	5,187	(238,334)	(116,813)	4,701	(112,112)
Costs	(51,451)	23,217	(28,234)	(23,478)	5,817	(17,661)
SG&A-allocated	(15,000)	--	(15,000)	(9,000)	--	(9,000)
Depreciation and amortization	(15,783)	(474)	(16,257)	--	(474)	(474)
Impairment loss	--	41,915	41,915	--	41,915	41,915



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Interest expense	(80,993)	1,662	(79,331)	(39,570)	1,662	(37,908)
Equity in income of UCV	--	(90,726)	(90,726)	--	(40,263)	(40,263)
Gain on sale	(2,764,483)	--	(2,764,483)	(2,764,483)	--	(2,764,483)
Segment profit (loss)	(2,844,777)	(151,859)	(2,996,636)	(2,809,248)	(84,482)	(2,893,730)

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 six month period of 2001 related to this easement. Other than this change, other rental revenues increased by \$23,000 and \$6,000 in the six and three month periods, respectively, and other rental costs increased in \$24,000 and \$6,000 in the six 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.

13

The equity in income of UCV decreased in the six 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 six and three months periods of 2001 compared to the prior period:

	Six Months -----	Three Months -----
Revenues	\$ 162,000	\$ 68,000
Costs	(8,000)	(19,000)
Depreciation	(4,000)	( 1,000)
Interest and amortization of loan costs	355,000	169,000
Net income	(181,000)	(81,000)

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 1.1% in the six 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.

#### REAL ESTATE DEVELOPMENT OPERATIONS:

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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:

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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

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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 2001 and 2000:

	Three Months		Six Months	
	2001	2000	2001	2000
Costs of goods sold and manufacturing overhead	\$ 352,000	\$ 451,000	\$ 792,000	\$ 935,000
Research & development	55,000	61,000	114,000	130,000
Total golf costs	407,000	512,000	906,000	1,065,000
Marketing & promotion	315,000	342,000	581,000	661,000
Administrative-direct	32,000	53,000	72,000	114,000
Total SG&A-direct	347,000	395,000	653,000	775,000
Allocated corporate costs	57,000	83,000	118,000	145,000

Total golf costs decreased in the three and six month periods of 2001 primarily due to cost cutting measures to reduce manufacturing overhead.

Marketing and promotion expenses decreased by \$80,000 in the six month period primarily due to decreases in, trade show expenses (\$26,000), trade advertising (\$19,000). The decrease in trade show expenses related to the Company not presenting a trade booth at the Las Vegas golf industry trade show in September 2001, which was cancelled. Marketing and promotion expenses decreased by \$27,000 in the three month period primarily due to a reduction in trade advertising (\$19,000).

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

#### OTHER:

Other income increased in the three and six month periods in 2001 related to funds received from its insurance company as reimbursement for the Company's legal costs to settle a lawsuit.

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 six month periods of 2001 compared to 2000, and also a reduction in the average interest rate of the outstanding debt.

#### OTHER

The Company is not a party to off-balance sheet arrangements, does not engage in trading activities involving non-exchange traded contracts, and, except as disclosed herein, is not a party to any transactions with persons or entities that derive benefits from their non-independent relationships with the Company.

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Other than as described herein, the Company has no financial guarantees, debt or lease agreements or other arrangements that could trigger a requirement for an early payment or that could change the value of the Company's assets.

### 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	\$16,000	\$7,000	\$4,000	\$27,000	\$27,000
Weighted average interest rate	12.1%	13.4%	13.6%	12.9%	
Variable rate debt	\$1,400,000	--	--	\$1,400,000	\$1,400,000
Weighted average interest rate	5.8%	--%	--%	5.8%	

The amounts for 2002 relate to the six-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 \$1,400,000 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 variable rate debt of \$33,000,000 as of December 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 scheduled principal payments for each of UCV's fiscal years ending March 31 is: 2002- none; 2003- \$33,000,000, and in total- \$33,000,000. The estimated fair value of this debt is \$33,700,000 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 December 31, 2001, 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

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30, 2001.

## ITEM 2. Changes in Securities

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NONE

## ITEM 3. Defaults upon Senior Securities

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N/A

## ITEM 4. Submission of Matters to a Vote of Security Holder

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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

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NONE

## ITEM 6. Exhibits & Reports on Form 8-K

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(a) Exhibits: NONE

(b) Reports on Form 8-K: NONE

16

## 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.

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By: /s/ Harold S. Elkan  
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Harold S. Elkan, President and Director

Date: February 18, 2002  
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By:/s/ Steven R. Whitman  
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Steven R. Whitman, Treasurer,  
Principal Accounting Officer and Director

Date: February 18, 2002  
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