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SPORTS ARENAS INC
Form 10-Q
May 15, 2003

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 March 31, 2003

OR

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

For the transition period from _____ to _____

Commission File Number 0-2380

SPORTS ARENAS, INC.

(Exact name of registrant as specified in its charter)

Delaware 13-1944249

(State of Incorporation) (I.R.S. Employer I.D. No.)

7415 Carroll Road, Suite C, San Diego, California 92121

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (858) 408-0364

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes No
--- ---

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No X
--- ---

The number of shares outstanding of the issuer's only class of common stock (\$.01 par value) as of April 30, 2003 was 27,250,000 shares.

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SPORTS ARENAS, INC.

FORM 10-Q

QUARTER ENDED MARCH 31, 2003

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SPORTS ARENAS, INC. AND SUBSIDIARIES CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS (Unaudited)

	March 31, 2003	June 30, 2002
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 185,349	\$ 39,345
Receivables	449,727	444,996

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Inventories	633,086	792,690
Prepaid expenses	61,830	38,706
	-----	-----
Total current assets	1,329,992	1,315,737
	-----	-----
Receivables due after one year:		
Note receivable- affiliate, net	--	--
	-----	-----
Property and equipment, at cost:		
Equipment and leasehold improvements	2,349,716	2,345,406
Less accumulated depreciation and amortization ..	(1,472,072)	(1,314,680)
	-----	-----
Net property and equipment	877,644	1,030,726
	-----	-----
Other assets:		
Intangible assets, net	9,321	37,284
Investments	67,000	423,657
Other	95,999	95,999
	-----	-----
	172,320	556,940
	-----	-----
	\$ 2,379,956	\$ 2,903,403
	=====	=====

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

LIABILITIES AND SHAREHOLDERS' DEFICIT
(Unaudited)

	March 31, 2003	June 30, 2002
	-----	-----
Current liabilities:		
Notes payable-short term	\$ 340,587	\$ 445,000
Current portion of long-term debt	7,553	8,000
Accounts payable	594,850	963,402
Accrued payroll and related expenses	310,130	215,093
Accrued interest	6,837	276,735
Other liabilities	146,537	92,803
	-----	-----
Total current liabilities	1,406,494	2,001,033
	-----	-----
Long-term debt, excluding current portion	--	5,456
	-----	-----

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Distributions received in excess of basis in investment	19,469,090	18,008,401
	-----	-----
Other liabilities	228,000	192,000
	-----	-----
Minority interest in consolidated subsidiary	431,839	802,677
	-----	-----
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	(18,866,524)	(17,817,221)
	-----	-----
	(16,863,975)	(15,814,672)
Less note receivable from shareholder	(2,291,492)	(2,291,492)
	-----	-----
Total shareholders' deficit	(19,155,467)	(18,106,164)
	-----	-----
Commitments and contingencies (Note 4)		
	\$ 2,379,956	\$ 2,903,403
	=====	=====

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 MARCH 31, 2003 AND 2002
(Unaudited)

	2003	2002
	-----	-----
Revenues:		
Bowling	\$ 444,556	\$ 516,454
Rental	19,335	54,860
Golf	841,552	741,226
Other	8,103	139,059
Other-related party	49,360	46,659
	-----	-----
	1,362,906	1,498,258
	-----	-----

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Costs and expenses:		
Bowling	318,451	362,329
Rental	18,800	54,841
Golf	654,047	722,769
Selling, general, and administrative	662,307	680,971
Depreciation and amortization	65,819	71,189
Impairment loss	88,881	3,000
	-----	-----
	1,808,305	1,895,099
	-----	-----
Loss from operations	(445,399)	(396,841)
	-----	-----
Other income (charges):		
Investment income-related party	7,946	(257)
Interest expense	(10,659)	(26,325)
Equity in income of investees	352,007	14,729
	-----	-----
	349,294	(11,853)
	-----	-----
Net loss	\$ (96,105)	\$ (408,694)
	=====	=====
Basic and diluted net loss per common share (based on 27,250,000 weighted average common shares outstanding)	\$ (0.00)	\$ (0.01)
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
NINE MONTHS ENDED MARCH 31, 2003 AND 2002
(Unaudited)

	2003	2002
	-----	-----
Revenues:		
Bowling	\$1,197,104	\$1,346,222
Rental	59,622	172,258
Golf	1,973,303	1,528,725
Other	164,155	294,834
Other-related party	146,229	139,043
	-----	-----
	3,540,413	3,481,082
	-----	-----
Costs and expenses:		
Bowling	994,015	1,028,624

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Rental	56,200	170,758
Golf	1,799,188	1,628,971
Selling, general, and administrative	1,851,900	1,990,108
Depreciation and amortization	197,457	214,041
Impairment loss	88,881	44,915
	-----	-----
	4,987,641	5,077,417
	-----	-----
Loss from operations	(1,447,228)	(1,596,335)
	-----	-----
Other income (charges):		
Investment income:		
Related party	24,230	15,971
Other	--	1,807
Interest expense	(56,181)	(74,410)
Equity in income (loss) of investees	429,876	(13,552)
	-----	-----
	397,925	(70,184)
	-----	-----
Net loss	\$ (1,049,303)	\$ (1,666,519)
	=====	=====
Basic and diluted net loss per common share (based on 27,250,000 weighted average common shares outstanding)	\$ (0.04)	\$ (0.06)
	=====	=====

See accompanying notes to consolidated condensed financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED MARCH 31, 2003 AND 2002
(Unaudited)

	2003	2002
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (1,049,303)	\$ (1,666,519)
Adjustments to reconcile net loss to the net cash used in operating activities:		
Depreciation and amortization	197,457	214,041
Equity in (income) loss of investees	(429,876)	13,552
Deferred income	36,000	36,000
Impairment loss	88,881	44,915
Changes in assets and liabilities:		
Increase in receivables	(4,731)	(91,476)
(Increase) decrease in inventories	159,604	(96,287)
(Increase) decrease in prepaid expenses	(23,124)	25,751
Increase (decrease) in accounts payable	(368,552)	11,006
Increase in accrued expenses	159,504	87,865
Other	27,963	58,263

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Net cash used in operating activities	(1,206,177)	(1,362,889)
Cash flows from investing activities:		
Capital expenditures	(4,310)	--
Proceeds from assignments of subleasehold interest	--	30,700
Distribution to holder of minority interest	(370,838)	(25,000)
Distributions from investees	2,118,276	1,805,820
Net cash provided by investing activities	1,743,128	1,811,520
Cash flows from financing activities:		
Scheduled principal payments on long-term debt	(5,903)	(25,851)
Proceeds from short-term notes payable	75,000	450,000
Payments on short-term notes payable	(460,044)	(1,255,000)
Net cash used in financing activities	(390,947)	(830,851)
Net increase (decrease) in cash and cash equivalents	146,004	(382,220)
Cash and cash equivalents, beginning of period	39,345	515,204
Cash and cash equivalents, end of period	\$ 185,349	\$ 132,984
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 41,153	\$ 10,956
Supplemental Disclosure of Non-Cash Financing Activities:		
Reclassification of principal payments on short-term debt to accrued interest	\$ 280,631	\$ --

See accompanying notes to consolidated condensed financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
MARCH 31, 2003 AND 2002
(Unaudited)

- The information furnished reflects all adjustments of a recurring nature 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 information and note disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report filed on form 10-K on November 14, 2002 for the year ended June 30, 2002.

Revenue recognition:

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the amount is fixed or determinable and

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collectibility is probable. All of these conditions are typically met at the time the Company ships products to its customers.

2. Due to the seasonal fluctuations of the bowling and golf club shaft manufacturing operations, the financial results for the interim periods ended March 31, 2003 and 2002, are not necessarily indicative of operations for the entire year.

3. Investments:

(a) Investments consist of the following:

	March 31, 2003	June 30, 2002
	-----	-----
Vail Ranch Limited Partnership (equity method)	\$ 67,000	\$ 423,657
	=====	=====
Investment in UCV, L.P. classified as liability- Distributions received in excess of basis in investment	\$19,469,090	\$18,008,401
	=====	=====

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

	2003	2002
	-----	-----
UCV, L.P.	\$104,876	\$ 79,448
Vail Ranch Limited Partnership	325,000	(93,000)
	-----	-----
	\$429,876	\$(13,552)
	=====	=====

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

	2003	2002
	-----	-----
UCV, L.P.	\$1,525,500	\$1,805,820
Vail Ranch Limited Partnership	592,776	--
	-----	-----
	\$2,118,276	\$1,805,820
	=====	=====

(b) Investment in UCV, L.P.

The operating results of this investment are included in the accompanying consolidated condensed statements of operations based upon the partnership's fiscal year (March 31). Summarized information from UCV, L.P.'s (UCV) unaudited statements of income for the nine and three-month periods ended December 31, 2002 and 2001 are as follows:

	Nine Months		Three Months	
	2003	2002	2003	2002
	-----	-----	-----	-----
Revenues	\$4,248,000	\$4,048,000	\$1,430,000	\$1,365,000
Operating and general and administrative costs	1,509,000	1,255,000	531,000	414,000
Depreciation	9,000	13,000	3,000	6,000
Interest expense	2,520,000	2,621,000	842,000	876,000
Net income	210,000	159,000	54,000	69,000

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As disclosed in the annual financial statements for the year ended June 30, 2002, 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.

On April 1, 2003, UCV sold the University City Village Apartments for \$58,400,000 in cash. After deducting selling expenses (\$2,314,000), paying mortgage loans (\$38,000,000), and the refund of lender impounds (\$1,340,000), the net sale proceeds to UCV was approximately \$19,156,000 and UCV's gain from sale was approximately \$52,737,000. UCV is planning on distributing a cumulative amount of approximately \$4,000,000 to \$5,000,000 of such proceeds to the Company in partial liquidation of its partnership interest in UCV. Of this total, UCV distributed \$1,000,000 to the Company from the proceeds of funds released from escrow on March 17, 2003 and distributed another \$1,500,000 to the Company in April 2003. The remaining funds are expected to be reinvested by UCV in "like-kind" property to defer a portion of the income tax consequences of the sale. As part of the sales transaction, the Company earned a \$350,000 sales commission that was included in UCV's selling expenses.

The Company has been deferring one half of fees it was receiving from UCV pursuant to a development services agreement. The balance of deferred income at March 31, 2003 (\$228,000) was recognized as revenue on April 1, 2003 upon the sale of the property.

(c) Investment in Vail Ranch Limited Partners

On February 21, 2003 Vail Ranch Limited Partners (VRLP) sold its interest in Temecula Creek LLC (TC) to its other partner in TC (ERT). The sale price consisted of \$1,318,180 cash and one-half of the sale proceeds from the remaining parcel of undeveloped land owned by TC when it is sold. \$100,000 of the sales proceeds are being held in an escrow until August 21, 2003 to be applied to any post closing claims ERT may have related to warranties and normal prorations in the sale contract for the TC interest. The cash proceeds to VRLP of \$1,218,180 were partially offset by \$225,000 of fees paid to one of the VRLP partners. The Company received a distribution of \$592,776 of which \$370,838 was paid to the holder of the minority interest in Old Vail Partners. VRLP recorded a \$843,326 gain from the sale of the partnership interest. This gain was partially offset by VRLP's agreement to pay its general partner \$225,000 of fees related to the sale of the partnership interest.

VRLP distributed \$592,776 to the Company as its share of the proceeds from the sale of the interest in TC less the fees paid to the general partner.

The Company recorded a \$88,881 impairment loss related to reducing the carrying amount of this investment to its estimated fair value, less selling costs, as of March 31, 2003.

4. Contingencies

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

5. Impact of Adopting SFAS No. 142, Goodwill and Other Intangible Assets

The Company does not have goodwill or intangible assets that have indefinite useful lives recorded on the accompanying consolidated condensed balance sheets. The Company only maintains intangible assets that have finite useful lives which are amortized over their useful lives.

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6. Liquidity

As a result of the distributions the Company has received from UCV related to the sales proceeds from the sale of the apartment project and the additional distributions it expects to receive from the sale proceeds by October 1, 2003, the Company believes it will have adequate liquid resources for at least twelve months.

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7. 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.

	Bowling	Real Estate Rental	Real Estate Development	Golf	Unan An
	-----	-----	-----	-----	-----
NINE MONTHS ENDED MARCH 31, 2003:					

Revenues	\$ 1,197,104	\$ 59,622	\$ --	\$ 1,973,303	\$
Depreciation and amortization...	18,297	40,065	--	125,271	
Interest expense	--	--	--	--	
Equity in income of investees	--	104,876	325,000	--	
Impairment loss	--	--	88,881	--	
Segment profit (loss)	(86,296)	68,233	236,119	(1,085,857)	
Investment income					
Net loss..					
NINE MONTHS ENDED MARCH 31, 2002:					

Revenues	\$ 1,346,222	\$ 172,258	\$ --	\$ 1,528,725	\$
Depreciation and amortization...	7,470	40,539	--	128,322	
Interest expense	--	1,662	--	--	
Equity in income (loss) of investees	--	79,448	(93,000)	--	
Impairment loss.....	--	44,915	--	--	
Segment profit (loss)	47,459	(6,168)	(97,000)	(1,461,302)	
Investment income					
Net loss					
THREE MONTHS ENDED MARCH 31, 2003:					

Revenues	\$ 444,556	\$ 19,335	\$ --	\$ 841,552	\$
Depreciation and amortization...	6,099	13,355	--	41,757	
Interest expense	--	--	--	--	
Equity in income of investees	--	27,007	325,000	--	
Impairment loss.....	--	--	(88,881)	--	

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Segment profit (loss)	21,973	14,187	236,119	(287,944)
Investment income				
Net loss				

THREE MONTHS ENDED MARCH 31, 2002:

Revenues	\$ 516,454	\$ 54,860	\$ --	\$ 741,226	\$
Depreciation and amortization...	2,490	13,355	--	42,774	
Interest expense	--	--	--	--	
Equity in income (loss) of investees	--	34,729	(20,000)	--	
Impairment loss.....	--	3,000	--	--	
Segment profit (loss)	61,845	18,393	(20,000)	(485,721)	
Investment income					
Net loss					

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

The independent auditors' report dated September 23, 2002 included in our June 30, 2002 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.

On April 1, 2003 UCV sold the University City Village Apartments for \$58,400,000 in cash. After deducting selling expenses (\$2,314,000), paying mortgage loans (\$38,000,000), and the refund of lender impounds (\$1,340,000), the net sale proceeds to UCV was approximately \$19,156,000 and UCV's gain from sale was approximately \$52,737,000. UCV is planning on distributing a cumulative amount of approximately \$4,000,000 to \$5,000,000 of such proceeds to the Company in partial liquidation of its partnership interest. Of this total, UCV distributed \$1,000,000 to the Company from the proceeds of funds released from escrow on March 17, 2003 and distributed another \$1,500,000 to the Company in April 2003. The balance of any distributions to the Company from the sales proceeds is expected to be made by October 1, 2003. The remaining funds of UCV are expected to be reinvested by UCV in "like-kind" property to defer a portion of the income tax consequences of the sale.

In February 2003 Vail Ranch Limited Partners (VRLP) sold its interest in Temecula Creek LLC (TC) to its other partner in TC (ERT). The sale price consisted of \$1,318,180 cash and one-half of the sale proceeds from the remaining parcel of undeveloped land owned by TC when it is sold. \$100,000 of the sales proceeds are being held in an escrow until August 21, 2003 to be applied to any post closing claims ERT may have related to warranties and normal prorations in the sale contract for the TC interest. The cash proceeds to VRLP of \$1,218,180 were partially offset by \$225,000 of fees paid to one of the VRLP

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partners. The Company received a distribution of \$592,776 of which \$370,838 was paid to the holder of the minority interest in Old Vail Partners.

The lease for the Company's sole remaining bowling center expires June 30, 2003. The Company plans to close the bowling center operations by May 31, 2003 and use the remaining lease term to remove equipment and sell any items of value. The Company estimates that the liquidation value of the remaining assets of the bowling center will offset any of the costs related to the closing.

The short-term loan from the Company's partner was paid in April 2003.

Management estimates negative cash flow of \$175,000 to \$250,000 in total for the last quarter of the year ending June 30, 2003 from operating activities after deducting capital expenditures and principal payments on notes payable but before distributions from UCV (\$1,500,000 received in April 2003).

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 within the next twelve months. The Company believes that the \$1,500,000 distribution from UCV it received in April 2003 and the additional distribution from UCV it is expecting to receive by October 1, 2003 (between \$1,500,000 and \$2,500,000) will provide sufficient working capital to fund operations until Penley Sports and the Company achieve a breakeven level of operations.

The Company has a working capital deficit of \$76,502 at March 31, 2003, which is a \$608,794 decrease from the working capital deficit of \$685,296 at June 30, 2002. The decrease in working capital deficit is primarily attributable to distributions the Company received from UCV (\$1,525,500) and Vail Ranch Limited Partners (\$592,776). These distributions were partially offset by the cash used by operating activities for the nine months ended March 31, 2003, payments to the holder of the minority interest (\$370,838) and on short term notes payable (\$460,044).

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The following is a schedule of the cash provided (used) before changes in assets and liabilities, segregated by business segments:

	2003	2002	Change
	-----	-----	-----
Bowling	\$ (68,000)	\$ 55,000	\$ (123,000)
Rental	3,000	--	3,000
Golf	(962,000)	(1,334,000)	372,000
Development	--	(4,000)	4,000
General corporate expense and other	(132,000)	(76,000)	(56,000)
	-----	-----	-----
Cash used by continuing operations	(1,159,000)	(1,359,000)	200,000
Capital expenditures, net of financing	(4,000)	--	(4,000)
Principal payments on long-term debt	(6,000)	(26,000)	20,000
	-----	-----	-----
Cash used	(1,169,000)	(1,385,000)	216,000
	=====	=====	=====
Distributions received from investees	2,118,000	1,806,000	312,000
	=====	=====	=====

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CRITICAL ACCOUNTING POLICIES

In response to the SEC's release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies", the Company has identified its most critical accounting policy as that related to the carrying value of its long-lived assets. Any event or circumstance that indicates to the Company an impairment of the carrying value of any asset is recorded in the period in which such event or circumstance becomes known to the Company. During the three and nine month periods ended March 31, 2003 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, other than the adjustment described in Note 3c of Notes to the Consolidated Condensed Financial Statements.

NEW ACCOUNTING PRONOUNCEMENTS

In June of 2002, the FASB issued SFAS No. 146; Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. This statement will only have an effect on the Company's financial statements to the extent future exit or disposal activities relevant to SFAS No. 146 occur.

In October 2002, the FASB issued SFAS No. 147; Acquisitions of Certain Financial Institutions. This Statement is not relevant to the Company's operations and will not have an impact on the Company's financial statements.

In December 2002, the FASB issued SFAS No. 148; Accounting for Stock-Based Compensation- Transition and Disclosure. This statement amends SFAS No. 123; Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement is effective for financial statements for fiscal years ending after December 15, 2002. The Company does not have stock-based compensation and this statement will not currently have an impact on the Company's financial statements.

In December 2002, the FASB issued Financial Interpretation No. 45 (FIN 45); Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. FIN 45 requires guarantors to determine and recognize the fair value of a guarantee at the issuance date. In addition, FIN 45 contains detailed disclosure requirements. The initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002 and the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company does not guarantee debt of others and does not expect FIN 45 to have an impact on the Company's financial statements.

In January 2003, the FASB issued Financial Interpretation No. 46 (FIN 46);

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Consolidation of Variable Interest Entities (VIE). The FASB has transformed its exposure draft on accounting for special purpose entities into this interpretation on variable interest entities. FIN 46 provides new guidance on consolidation of controlled entities, irrespective of voting interests. Most of the requirements under FIN 46 are effective for new VIE's created after January 30, 2003. The Company is still in the process of determining the accounting and financial statement impact of FIN 46.

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

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

Results of Operations

The following is a summary of the changes in the results of operations for the nine and three-month periods ended March 31, 2003 compared to the same period in 2002 and a discussion of the significant changes:

NINE MONTHS ENDED MARCH 31, 2003 VERSUS 2002

	Bowling	Rental Operation	Real Estate Development	Golf	Unallocate And Other
	-----	-----	-----	-----	-----
Revenues	\$ (149,118)	\$ (112,636)	\$ --	\$ 444,578	\$ (123,493)
Costs	(34,609)	(114,558)	--	170,217	--
SG&A-direct	3,493	--	--	(110,033)	(31,668)
SG&A-allocated	4,926	--	(4,000)	12,000	(12,926)
Depreciation and amortization ..	10,827	(474)	--	(3,051)	(23,886)
Impairment loss	--	(44,915)	88,881	--	--
Interest expense	--	(1,662)	--	--	(16,567)
Equity in investees	--	25,428	418,000	--	--
Segment profit (loss)	(133,755)	74,401	333,119	375,445	(38,446)
Investment income					
Income from operations					

THREE MONTHS ENDED MARCH 31, 2003 VERSUS 2002

	Bowling	Rental Operation	Real Estate Development	Golf	Unallocate And Other
	-----	-----	-----	-----	-----
Revenues	\$ (71,898)	\$ (35,525)	\$ --	\$ 100,326	\$ (128,255)
Costs	(43,878)	(36,041)	--	(68,722)	--
SG&A-direct	4,177	--	--	(33,712)	10,871

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SG&A-allocated	4,066	--	--	6,000	(10,066)
Depreciation and amortization ..	3,609	--	--	(1,017)	(7,962)
Impairment loss	--	(3,000)	88,881	--	--
Interest expense	--	--	--	--	(15,666)
Equity in investees	--	(7,722)	345,000	--	--
Gain on sale	--	--	--	--	--
Segment profit (loss)	(39,872)	(4,206)	256,119	197,777	(105,432)
Investment income					
Income from operations					

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BOWLING OPERATIONS:

Bowl revenues decreased by 11% and 14% in the nine and three month periods, respectively, primarily due to related declines in the number of games bowled. Open play declined 15% and 21% and league play declined 10% and 6% in the nine and three month periods, respectively. These declines are likely to continue until the bowl closes its operations on May 31, 2003. Bowl costs decreased in each period primarily due to a decrease in maintenance costs on the lanes that no longer need to be performed with the bowling center closing its operations on May 31, 2003. There were no material changes in selling, general and administrative costs related to the bowling center.

RENTAL OPERATIONS:

This segment includes the equity in income of the operation of a 542 unit apartment project (UCV), a subleasehold interest in land underlying a condominium project (PS Sublease) (which was sold in March 2002), and the sublease of a portion of the Penley factory. The following is a summary of the changes in operations:

	Nine Month Period			Three Month Period		
	PS Sublease	Other	Combined	PS Sublease	Other	Combined
Revenues	(119,098)	6,462	(112,636)	(36,500)	975	(35,525)
Costs	(116,458)	1,900	(114,558)	(36,541)	500	(36,041)
SG&A-allocated	--	--	--	--	--	--
Depreciation and amortization	(474)	--	(474)	--	--	--
Impairment loss	(44,915)	--	(44,915)	(3,000)	--	(3,000)
Interest expense	(1,662)	--	(1,662)	--	--	--
Equity in income of UCV	--	25,428	25,428	--	(7,722)	(7,722)
Segment profit (loss)	44,411	29,990	74,401	3,041	(7,247)	(4,206)

The primary reason for the decline in rental revenues and costs related to the sale of the PS Sublease in March 2002.

The equity in income of UCV increased in the nine month period primarily due to decreases in interest expense related to the lower interest rate obtained in the refinancing in March 2002. The equity in income of UCV declined in the three month period primarily due to an increase in the rental costs that exceeded the

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increase in rental revenues. Rental revenues increased in each period primarily due to a 7% increase in the average rental rate for each period, which was partially offset by increases in the vacancy rate from 1.5% to 2.5% for the nine month period and from 2.0% to 3.2% for the three month period. Costs increased in each period primarily due to increases in insurance costs and maintenance and repairs. The following is a summary of the changes in the operations of UCV, LP in the nine and three months periods of 2002 compared to the prior period:

	Nine Months	Three Months
Revenues	\$ 200,000	\$ 65,000
Costs	254,000	117,000
Depreciation	(4,000)	(3,000)
Interest and amortization of loan costs	(101,000)	(34,000)
Net income	51,000	(15,000)

REAL ESTATE DEVELOPMENT OPERATIONS:

The following is a summary of changes to the operations of Vail Ranch Limited Partnership:

	Nine Months	Three Months
Equity in operations of TC	\$ 79,000	\$ (43,000)
Gain on sale of interest in TC	843,000	843,000
Fees related to sale of interest	(225,000)	(225,000)
Net income	697,000	575,000

On February 21, 2003, VRLP sold its interest in Temecula Creek LLC. As a result of the sale the Company recorded a \$88,881 impairment loss related to reducing the carrying amount of this investment to the estimated fair value less selling costs as of March 31, 2003

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GOLF OPERATIONS:

Golf revenues increased in 2003 due to increases in sales to small golf club manufacturers and golf equipment distributors. The following is a breakdown of the percentage of increases in sales by customer category:

	Nine Months	Three Months
Golf equipment distributors .	81%	48%
Golf club manufacturers	32%	(15%)
Golf shops	(8%)	3%
Other	(30%)	109%

The decrease in sale to the manufacturers in the three month period relates to two customers in that placed significant start up orders with the Company in 2002 (\$150,000) that are no longer doing business with the Company. This decrease was partially offset with orders from new customers that offset all but \$37,000 of this decrease.

Operating expenses of the golf segment consisted of the following in 2003 and 2002:

Nine Months		Three Months	
2003	2002	2003	2002

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	-----	-----	-----	-----
Costs of goods sold and manufacturing overhead	\$1,654,000	\$1,460,000	\$ 606,000	\$ 668,000
Research & development	145,000	169,000	48,000	55,000
	-----	-----	-----	-----
Total golf costs	1,799,000	1,629,000	654,000	723,000
	=====	=====	=====	=====
Marketing & promotion	741,000	946,000	299,000	366,000
Administrative-direct	203,000	107,000	68,000	34,000
	-----	-----	-----	-----
Total SG&A-direct	944,000	1,053,000	367,000	400,000
	=====	=====	=====	=====
Allocated corporate costs	191,000	179,000	67,000	61,000
	=====	=====	=====	=====

Total golf costs increased in the nine month period in 2003 primarily due to the cost of goods sold due to increased sales in increased production during the first six months. However, although sales were higher in the three month period in 2003, production levels were lower. This resulted in lower golf costs in the three month period in 2003. Marketing and promotion expenses decreased primarily due to the Company not renewing the contract with its marketing consultant in May 2002. Marketing and promotion otherwise decreased due to a decrease in the tour program expenses that resulted from staffing the program with one person instead of two. Administrative expenses increased primarily due to increases in bad debt expense of \$64,000 and \$19,000 in the nine and three month periods, respectively.

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ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Due to the sale of the property owned by UCV on April 1, 2003 and the payment of all of the Company's short term debt in April 2003, the Company currently does not have any material market risk related to fluctuations in interest rates on fixed or variable rate debt.

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

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Securities Exchange Act 1934 Rules 13a-14(c) and 15d-4(c)) that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures,

Within 90 days prior to the date of this quarterly report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief

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Financial Officer concluded that our disclosure controls and procedures were effective.

Changes in Internal Controls:

There have not been any significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation. There were no significant deficiencies or material weaknesses, and therefore no corrective actions were taken.

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PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

As of March 31, 2003, 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, 2002 except for a lawsuit filed on January 10, 2003 in the United States District Court in the Southern District of California by Masterson Marketing, Inc. (Masterson) against Penley Sports, LLC. Masterson's lawsuit claims copyright infringement, breach of contract breach of fiduciary duty, constructive fraud and conversion. Masterson is seeking damages in excess of \$450,000. The Company is in the process of filing an answer to these claims. It is not possible at this time to predict the outcome of this litigation. We intend to vigorously defend against these claims.

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 23, 2002 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	23,668,148	0	48,761
Steven R. Whitman	23,692,091	0	24,818
Patrick D. Reiley	23,690,893	0	26,016
James E. Crowley	23,692,643	0	24,266
Robert A. MacNamara	23,690,643	0	26,266

ITEM 5. Other Information

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NONE

ITEM 6. Exhibits & Reports on Form 8-K

(a) Exhibits:

99.1 Pro Forma financial information related to the sale of University City Village apartments by UCV, L.P., an unconsolidated subsidiary.

(b) Reports on Form 8-K:

On April 15, 2003, the Company filed a Current Report on Form 8-K reporting, under Item 5 - Other Events, certain information relating to the sale of University City Village apartments by UCV, L.P., an unconsolidated subsidiary, on April 1, 2003.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPORTS ARENAS, INC.

By: /s/ Harold S. Elkan

Harold S. Elkan, President and Director

Date: May 15, 2003

By: /s/ Steven R. Whitman

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

Date: May 15, 2003

CERTIFICATIONS

I, Harold S. Elkan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sports Arenas, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were any significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation,

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including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003 By: /s/ Harold S. Elkan

Harold S. Elkan
President and Chief Executive Officer

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I, Steven R. Whitman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sports Arenas, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this

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quarterly report whether or not there were any significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003

By:/s/ Steven R. Whitman

Steven R. Whitman
Chief Financial Officer