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SPORTS ARENAS INC
Form 10-K405
October 15, 2001

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the fiscal year ended June 30, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, \$.01 par value

(Title of class)

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
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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates (5,441,733 shares) of the Registrant as of September 28, 2001 was \$190,000 (based on average of bid and asked prices). The number of shares of common stock

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outstanding as of September 28, 2001 was 27,250,000.

Documents Incorporated by Reference - None.

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PART I

ITEM I. Business

General Development and Narrative Description of Business

Sports Arenas, Inc. (the "Company") was incorporated as a Delaware corporation in 1957. The Company, primarily through its subsidiaries, owns and operates one bowling center, an apartment project (50% owned), and a graphite golf club shaft manufacturer. The Company also performs a minor amount of services in property management and real estate brokerage related to commercial leasing. The Company has its principal executive office at 7415 Carroll Road, Suite C, San Diego, California. Overall, the Company and its consolidated subsidiaries have approximately 70 employees. The following is a summary of the revenues of each segment, excluding construction, stated as a percentage of total revenues for each of the last three years:

	2001	2000	1999
	----	----	----
Bowling	49	54	67
Real estate operations	10	14	14
Real estate development	-	-	-
Golf	34	24	10
Other	7	8	9

(1) Bowling Centers - The Company's wholly owned subsidiary, Cabrillo Lanes, Inc. (the "Bowls"), operated two bowling centers during the year ended June 30, 2001 containing 110 lanes in San Diego, California. These two centers were purchased in August 1993. One of the centers, which contained 50 lanes, was closed on December 21, 2001 in conjunction with the sale by the Company of the land and building.

The remaining bowling center's operations include food and beverage facilities and coin operated video and other games. The revenues from these activities have averaged 32 percent of total bowling related revenues for the last three fiscal years. The bowling center operates the food and beverage operations, which includes sale of beer, wine and mixed drinks. The Company receives a negotiated percentage of the gross revenues from the coin operated video games. The bowling center includes a pro shop, which is leased to an independent operator for a nominal amount. The center also has a day care facility, which is provided free of charge to the bowlers. The bowling center has automatic score-keeping and a computerized cash control system.

On average, 36 percent of the games bowled are by bowling leagues that enter into league reservation agreements to use a specified number of lanes at a specified time and day for a specified period of weeks. On average, the league reservation agreements are for 35 weeks for the winter season (September through April) and 15 weeks for the summer season (May through August). League revenues for September through April average 78 percent of league revenues annually.

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Approximately 71 percent of all bowling related revenues are generated in the months of September through April.

The bowling industry faces substantial competition for the sports and recreation dollar. The Bowl competes with other bowling centers in its market area, as well as other sports and recreational activities. Further competition is likely at any time a new center is constructed in the same market area. The Company continuously markets its league and open play through a combination of advertising, phone solicitation, direct mail, and a personal sales program.

At June 30, 2001, the bowling center was licensed to sell alcoholic beverages. Licenses are generally renewable annually provided there are no violations of government regulations. The bowling center was cited with two violations in the last 12 months and has a 15 day suspension of its liquor license to serve pending an appeal. If the bowling center receives another citation in the next 12 months, the bowling center may lose its license permanently. The bowling center employs approximately 30 people.

(2) REAL ESTATE DEVELOPMENT - The Company, through its subsidiaries (see Item 2. Properties (b) Real Estate Development for ownership), had ownership interests in a 33 acre parcel and a 13 acre parcel of partially developed land in Temecula, California (Riverside County). The 33 acre parcel was sold on June 1, 2001.

In September 1994, Vail Ranch Limited Partnership (VRLP) was formed as a partnership between Old Vail Partners, L.P., a California limited partnership, (OVP), a subsidiary of the Company, and Landgrant Corporation (Landgrant) to develop a 32 acre parcel of land of which 27 acres was developable. Landgrant is not affiliated with the Company. VRLP completed construction of a community shopping center on 10 acres of land in May 1997 and sold approximately 3.6 partially improved acres in the year ended June 30, 1997 and .59 partially improved acres during the year ended June 30, 1998 to unaffiliated purchasers for cash of \$2,365,000 and \$400,000, respectively. The cash proceeds from these sales were applied to reduce the construction loan balance. On January 2, 1998, VRLP sold the shopping center to New Plan Excel Realty Trust, Inc. (Excel) for

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\$9,500,000 cash. On August 7, 1998, VRLP entered into a an operating agreement (Agreement) with ERT Development Corporation (ERT), an affiliate of Excel, to form Temecula Creek, LLC, a California limited liability company (TC). TC was formed for the purpose of developing, constructing and operating the remaining 13 acres of land as part of the community shopping center in Temecula, California. VRLP contributed the 13 acres of land to TC and TC assumed the balance of the assessment district obligation payable. For purposes of maintaining capital account balances in calculating distributions, VRLP's contribution, net of the liability assumed by TC, was valued at \$2,000,000. ERT contributed \$1,000,000 cash which was immediately distributed by TC to VRLP. VRLP, which is the managing member, and ERT are each 50 percent members. ERT also advanced approximately \$220,000 to TC to reimburse VRLP for certain predevelopment costs incurred by VRLP for the 13 acres. The Agreement provides that ERT will advance funds to fund predevelopment costs, other than property taxes and assessment district costs. Each member is required to advance 50 percent of the property taxes and assessment district costs as they become due (approximately \$163,000 annually). The development plan is for 109,910 square foot shopping center on approximately 13 acres of land. In July 2000, TC completed development of 54,107 square feet of the shopping. As of August 31, 2001 a total of 75,692 square feet had been constructed of which 100% is currently leased. The balance of the build out is expected to be completed by February 2002.

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Old Vail Partners, a California general partnership, (OVPGP), a subsidiary of the Company, owned a 33 acre parcel which was originally designated as commercially-zoned, however, the City of Temecula adopted a general development plan as a means of down-zoning the property to a lower use, which if the Company was not successful in having a development planned approved, might have significantly impaired the value of the property. The Company contested this action, and as described below, was successful in having a development plan approved in October 2000 that enabled the Company to sell the property in June 2001.

(3) Commercial Real Estate Rental - Real estate rental operations consist of one office building in the Sorrento Mesa area of San Diego, California, a sublessor interest in land leased to condominium owners in Palm Springs, California, and a 50 percent ownership interest in a 542 unit apartment project in San Diego, California.

Downtown Properties Development Corporation (DPDC), a wholly-owned subsidiary of the Company, owned a 36,000 square foot office building in the Sorrento Mesa area of San Diego, California. The building was originally acquired in 1984 by 5230, Ltd., which was 75 percent owned as a limited and general partner by Sports Arenas Properties, Inc. (SAPI), a wholly-owned subsidiary of the Company. The Company occupied approximately 14 percent of the office building. On December 28, 2000 the Company sold its office building for \$3,725,000 and recorded a gain of \$2,764,483. The Company has been released from liability under the existing loan except for those acts, events or omissions that occurred prior to the loan assumption. The Company had occupied approximately 5,000 square feet of space in the building since 1984. The existing lease expires in September 2011. In conjunction with a lease modification with the new owner to the office building, the Company vacated the premises on April 6, 2001 and moved into the factory space occupied by its subsidiary, Penley Sports, LLC. However, because the lease commitment was a condition to the original loan agreement, the lender will only allow the Company to be conditionally released from its remaining lease obligation. In the event there is an uncured event of default by the new owner of the office building under the existing loan agreement, the Company's obligations under its lease will be reinstated to the extent there is not an enforceable lease on the Company's former space.

The following is a schedule of selected operating information over the last five years:

	2001	2000	1999	1998	1997
	----	----	----	----	----
Occupancy	93%	99%	99%	97%	98%
Average monthly rent per square foot	\$1.18	\$1.11	\$.98	\$.86	\$.87
Real property tax	\$9,000	\$19,000	\$19,000	\$18,000	\$17,000
Real Property tax rate	1.12%	1.12%	1.12%	1.12%	1.12%

DPDC is also the lessee of 15 acres of land in the Palm Springs, California area under a ground lease expiring in September 2043. The land is subleased to owners of condominium units which were constructed on the property in 1982. The development was originally planned by DPDC and then sold to another developer, but DPDC retained the rights to the subleases. The subleases also expire in September 2043. The master lease provides for the payment of rent equal to the greater of a minimum rent, which is adjusted for increases in the consumer price index every five years, or 85 percent of the rents collected on the subleases, which are also adjusted for increases in the consumer price index every five years.

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UCVGP, Inc. and Sports Arenas Properties, Inc. (SAPI), wholly-owned subsidiaries of the Company, are a one percent managing general partner and a 49 percent limited partner, respectively, in UCV, L.P. (UCV), which owns an apartment project (University City Village) located in San Diego, California. University City Village contains 542 rental units and was acquired in August 1974. UCV employs approximately 30 persons. The following is a schedule of selected operating information over the last five years:

	2001	2000	1999	1998	1997
	----	----	----	----	----
Occupancy	98%	99%	99%	99%	98%
Average monthly rent/unit	\$772	\$728	\$694	\$675	\$662
Real property tax	\$114,000	\$112,000	\$110,000	\$108,000	\$107,000
Real Property tax rate	1.12%	1.12%	1.12%	1.12%	1.12%

(4) Golf club shaft Manufacturer - On January 22, 1997, the Company purchased the assets of the Power Sports Group doing business as Penley Power Shaft (PPS) and formed Penley Sports, LLC (Penley) with the Company as a 90 percent managing member and Carter Penley as a 10 percent member. PPS was a manufacturer of graphite golf club shafts that primarily sold its shafts to custom golf shops. PPS's sales had averaged approximately \$375,000 in calendar 1995 and 1996. PPS marketed its shafts in limited quantities through phone contact and trade magazine advertisements directed at golf shops. Although PPS's manufacturing process was not automated, it had developed a good reputation in the golf industry as a manufacturer of high performance golf club shafts, in addition to maintaining relationships with the custom golf shops. Penley's plans are to market its products to golf club manufacturers and golf club component distributors. To compliment the program of marketing to higher volume purchasers, Penley purchased over \$1,100,000 of equipment since January 22, 1997 to automate some of the production processes. Additionally, in June 2000 Penley moved from its 8,559 square foot facility into a 38,025 square foot facility, of which approximately 10,000 square feet are subleased to another tenant through October 2002.

Until January 2000, Penley's sales were principally to custom golf shops where the orders are for 2 to 10 shafts per order at prices averaging \$18 per shaft. In January 2000, Penley commenced sales to two of the largest golf component distributors. As a result of the sales to these two distributors and other small golf club manufacturers, golf club shaft sales increased by \$735,654 in the year ended June 30, 2000 and \$407,660 in the year ended June 30, 2001. Penley currently has products in testing by several large golf club manufacturers. However, there can be no assurances that the Penley will be able to enter into any significant sales contracts or that, if it does, the contracts will be profitable to Penley.

Penley has implemented an extensive program to market directly to golf club manufacturers through the distribution of direct mail materials and videos and participation in several large golf shows during the year. Penley is principally using its internal sales staff in the marketing and sale of its shafts to manufacturers, distributors and golf shops. Penley is also promoting its shafts to professional golfers as a means of achieving acceptance with the club manufacturers as the golfers endorse the shafts.

Management believes Penley has been successful in building a reputation as a leader in new shaft design and concepts. Penley has applied for several patents on shaft designs, of which one was issued and the others are pending. Although Penley has developed several new products, no assurance can be given that they will meet with market acceptance or that Penley will be able to continue to design and manufacture additional new products.

The primary raw material used in all of Penley's graphite shafts is carbon fiber, which is combined with epoxy resin to produce sheets of graphite prepreg.

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Due to low production levels, Penley currently purchases most of its graphite prepreg from two suppliers. There are numerous alternative suppliers of graphite prepreg. Although Management believes that it will be able to establish relationships with other graphite prepreg suppliers to ensure sufficient supplies of the material at competitive pricing as production increases, there can be no assurances the unforeseen difficulties will not occur that could lead to interruptions and delays to Penley's production process.

Penley uses hazardous substances and generates hazardous waste in the ordinary course of its manufacturing of graphite golf club shafts and other related products. Penley is subject to various federal, state, and local environmental laws and regulations, including those governing the use, discharge and disposal of hazardous materials. Management believes it is in substantial compliance with the applicable laws and regulations and to date has not incurred any liabilities under environmental laws and regulations nor has it received any notices of violations. However, there can be no assurance that environmental liabilities will not arise in the future which may affect Penley's business.

Penley is trying to enter a highly competitive environment among established golf club shaft manufacturers. Although Penley has made significant progress in establishing its reputation for technology, the unproven production capability of Penley is making it difficult to attract the golf club manufacturers as customers.

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Penley currently has one patent and two other patents pending and several copyrighted trademarks and logos. Although Management believes these items are of value to the business and Penley will protect them to the fullest extent possible, Management does not believe these items are critical to Penley's ability to develop business with the golf club manufacturers.

Penley currently has approximately 35 full and part-time employees.

Due to Penley's low sales volume, there is currently no impact from the seasonality of sales (expected to be from April through September), no significant backlog of sales orders, or customer concentration (based on consolidated revenues).

(b) INDUSTRY SEGMENT INFORMATION:

See Note 11 of Notes to Consolidated Financial Statements for required industry segment financial information.

ITEM 2. PROPERTIES

(a) Bowling Centers:

The Company's remaining bowling center occupies the following facility:

Name	Location	Size	Expiration Date of Lease
----	-----	----	-----
Grove Bowl	San Diego, California	60 lanes	June 2003- options to 2018

The Grove Bowl occupies its facility pursuant to a long-term operating lease described in Note 8(a) of the Notes to Consolidated Financial Statements.

(b) Real Estate Development:

As of June 30, 1999, Downtown Properties Inc. (DPI), a wholly-owned subsidiary of the Company, owned 507 acres of undeveloped land in Lake of the Ozarks, Missouri. The land was collateral for a \$75,927 bank loan (first deed of trust). On September 7, 1999 the property was sold to a third party for \$215,000 cash,

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less selling expenses of \$24,638, and the loan was paid from the proceeds.

RCSA Holdings, Inc. (RCSA) and OVGP, Inc., wholly-owned subsidiaries of the Company, own a combined 50 percent general and limited partnership interest in Old Vail Partners, L.P., a California limited partnership (OVP), which owns a 60 percent limited partnership interest in Vail Ranch Limited Partnership (VRLP). As described in Note 6(c) of Notes to Consolidated Financial Statements, there are four other partners in OVP in the form of liquidating limited partnership interests. Three of the four partners had received the limit of their distributions through June 30, 2001 and their partnership interests were liquidated. The remaining partner in OVP is entitled to 50 percent of the cash distributions from OVP, not to exceed \$2,450,000, of which \$1,410,000 has been paid as of June 30, 2001.

RCSA and DPI were the general partners of Old Vail Partners (OVPGP), a California general partnership, which owned 33 acres of unimproved land in Temecula, California. OVPGP contributed the land to OVP when the litigation regarding the zoning was settled (see below). In June 2001, OVP sold the unimproved land.

The 33 acres of land owned by OVPGP as of June 30, 2000 was located within a special assessment district of the County of Riverside, California (the County) which was created to fund and develop roadways, sewers, and other required infrastructure improvements in the area necessary for the owners to develop their properties. Property within the assessment district is collateral for an allocated portion of the bonded debt that was issued by the assessment district to fund the improvements. The principal balance of the allocated portion of the bonds was \$1,384,153 as of June 30, 2000. The annual payments (due in semiannual installments) related to the bonded debt are approximately \$144,000 for the 33 acres. The payments continue through the year 2014 and include interest at approximately 7-3/4 percent. OVP was delinquent in the payment of property taxes and assessments for over the last eight years and the property was subject to default judgments to the County of Riverside, California totaling approximately \$2,132,421 as of June 30, 2000 regarding delinquents assessment district payments (\$1,776,243) and property taxes (\$356,178).

In November 1993, the City of Temecula adopted a general development plan that designated 33 acres of property owned by Old Vail Partners, a general partnership (the predecessor to Old Vail Partners, L.P., a California limited partnership) (OVPGP) as suitable for "professional office" use, which was contrary to its zoning as "commercial" use. As part of the adoption of its general development plan, the City of Temecula adopted a provision that, until the zoning is changed on properties affected by the general plan, the general plan shall prevail when a use designated by the general plan conflicts with the existing zoning on the property. The result was that the City of Temecula has effectively down-zoned the 33 acres from a "commercial" to "professional office" use. As described above, the parcel was subject to assessment district obligations, which were allocated in 1989 based on a higher "commercial" use. Since the assessment district obligations were not subject to reapportionment as a result of re-zoning, a "professional office" use was not economically feasible due to the disproportionately high allocation of assessment district costs.

The County had scheduled the 33 acres for public sale for the defaulted property taxes on September 27, 1999. OVPGP had unsuccessfully attempted to negotiate a payment plan with the County subject to the successful resolution of the zoning problems with the property. On September 23, 1999, OVPGP filed a petition for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court. The primary claim affected by this action was the County's secured claim for delinquent taxes and assessment district payments. OVPGP's

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plan was to use the relief from stay to continue its efforts to negotiate a settlement of the zoning issues and restore the economic value of the property. The bankruptcy proceeding was dismissed on February 15, 2000 with the concurrence of OVPGP. This dismissal allowed the County of Riverside to proceed with a public sale of the property within 45 days after giving notice. On June 23, 2000, the County of Riverside agreed to remove the property from the planned public sale originally schedule for June 26, 2000 in exchange for an immediate payment of \$330,000 with the balance of property taxes due on December 29, 2000. Separately, the County of Riverside stated that a foreclosure sale related to the default judgement for assessment district payments would not be scheduled until some time after January 1, 2001. On January 19, 2001, the County of Riverside agreed to extend the due date to March 30, 2001 with three options to that would extend the due date to August 1, 2001. Each extension option requires a payment of \$25,000. Payments were made to date to extend the agreement to May 31, 2001.

On May 6, 1998, OVPGP filed suit against the City of Temecula, California in the California Superior Court for the County of Riverside. OVPGP claimed that, if the effective re-zoning is valid, the action would be a taking and damaging of OVPGP's property without payment of just compensation. OVPGP was seeking to have the effective re-zoning invalidated and an unspecified amount of damages. OVPGP has previously suffered adverse outcomes in other suits filed in relation to this matter. A stipulation was entered that dismissed this suit without prejudice and agreed to toll all applicable statute of limitations while OVPGP and the City of Temecula attempted to informally resolve this litigation.

On October 23, 2000, the City of Temecula's city council granted preliminary approval of OVPGP's request for re-zoning and general plan amendment related to a development plan which includes a combination of multi-family and commercial uses. On November 28, 2000 the re-zoning and general plan amendment requested by OVPGP were adopted by the City of Temecula and OVPGP abandoned its legal claims against the City of Temecula.

On June 1, 2001, the Company sold the 33 acres to an unrelated developer for \$6,375,000 cash plus assumption of the non-delinquent balance of the assessment district obligation (\$1,001,274) and recorded a gain of \$5,544,743. The cash proceeds were used to pay \$2,459,477 of delinquent taxes and assessments related to the property and \$299,458 of selling expenses. In addition, payments of \$2,172,410 were made to the limited partners in OVP from the proceeds.

(c) Real Estate Operations:

UCVGP, Inc. and SAPI, wholly owned subsidiaries of the Company, own a one percent managing general partnership interest and a 49 percent limited partnership interest, respectively, in UCV, L.P. (UCV). UCV owns a 542-unit apartment project (University City Village) in the University City area of San Diego, California. The property is collateral for a \$33,000,000 note payable by the partnership as of June 30, 2001.

DPDC owned an approximate 36,000 square foot office building located in San Diego, California, which was constructed in 1983. DPDC sold the office building on December 28, 2000.

DPDC is the lessee of 15 acres of land in the Palm Springs, California area under a lease expiring in September 2043. The land is subleased to the owners of the condominium units constructed on the property. The subleases also expire in September 2043.

(d) Golf Operations:

Penley Sports, LLC leases 38,025 square feet of industrial space in San Diego, California pursuant to a lease that expires in March 31 2010 with options to

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March 31, 2020. Penley has subleased approximately 10,000 square feet to a third party pursuant to a two year lease that expires in October 2002.

ITEM 3. LEGAL PROCEEDINGS

At June 30, 2001 the Company or its subsidiaries were not parties to any material legal proceedings other than routine litigation incidental to the business.

ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS NONE

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

- (a) There is no recognized market for the Company's common stock except for limited or sporadic quotations, which may occur from time to time. The following table sets forth the high and low bid prices per share of the Company's common stock in the over-the-counter market, as reported on the OTC Bulletin Board, which is a market quotation service for market makers. The over-the-counter quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily reflect actual transactions in shares of the Company's common stock.

	2001		2000	
	High	Low	High	Low
First Quarter	\$.04	\$.04	\$.02	\$.02
Second Quarter	\$.04	\$.04	\$.02	\$.02
Third Quarter	\$.04	\$.04	\$.05	\$.02
Fourth Quarter	\$.06	\$.04	\$.06	\$.02

- (b) The number of holders of record of the common stock of the Company as of September 20, 2001 is approximately 4,300. The Company believes there are a significant number of beneficial owners of its common stock whose shares are held in "street name".
- (c) The Company has neither declared nor paid dividends on its common stock during the past ten years, nor does it have any intention of paying dividends in the foreseeable future.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA (NOT COVERED BY INDEPENDENT

AUDITORS' REPORT)

Year Ended June 30,

2001

2000

1999

1998

1997

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Revenues	\$ 4,492,736	\$ 4,724,435	\$ 3,957,011	\$ 3,642,335	\$ 3,720,000
Loss from operations	(3,443,196)	(3,424,495)	(3,654,212)	(2,603,065)	(4,320,000)
Income (loss) from continuing operations	3,603,234	(3,625,063)	(3,501,933)	(895,524)	(3,340,000)
Basic and diluted income (loss) per common share from continuing operations	.13	(.13)	(.13)	(.03)	(.03)
Total assets	3,448,474	6,601,236	6,998,820	9,448,653	9,930,000
Long-term debt, excluding current portion	13,942	1,967,169	3,911,694	3,287,783	4,060,000

See Notes 4(b), 6(c), and 12 of Notes to Consolidated Financial Statements regarding disposition of business operations and material uncertainties.

Certain 2000, 1999, 1998 and 1997 amounts have been reclassified to conform to the presentation used in 2001.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

LIQUIDITY AND CAPITAL RESOURCES

The Company has a working capital deficit of \$1,086,126 at June 30, 2001, which is a \$5,741,877 decrease from the working capital deficit of \$6,828,003 at June 30, 2000. The working capital deficit decreased primarily due to the sale of the office building, bowling center real estate and undeveloped land. These sources of funds were partially offset by \$3,422,256 of cash used by operations.

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

The cash provided (used) before changes in assets and liabilities segregated by business segments was as follows:

	2001	2000	1999
	-----	-----	-----
Bowling	(289,000)	(356,000)	(157,000)
Rental	105,000	219,000	207,000
Golf	(2,594,000)	(2,652,000)	(2,587,000)
Development	(177,000)	(246,000)	(215,000)
General corporate expense and other .	(467,000)	(217,000)	(257,000)
	-----	-----	-----
Cash provided (used) by continuing operations	(3,422,000)	(3,252,000)	(3,009,000)
Capital expenditures, net of financing	(538,000)	(446,000)	(148,000)
Principal payments on long-term debt	(214,000)	(360,000)	(262,000)
	-----	-----	-----
Cash used	(4,174,000)	(4,058,000)	(3,419,000)
	=====	=====	=====
Distributions received from investees	1,559,000	2,193,000	1,420,000
	=====	=====	=====

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Contributions to investees	(200,000)	(43,000)	--
	=====	=====	=====
Proceeds from sale of assets	5,680,000	190,000	--
	=====	=====	=====
Payments on minority interests	(2,172,000)	--	--
	=====	=====	=====

Other than distributions of \$920,000 received in March 2001 and \$1,757,000 received in October 1999 from the proceeds of UCV's long term debt, the cash distributions the Company received from UCV during the last three years were the Company's proportionate share of distributions from UCV's results of operations. The investment in UCV is classified as a liability because the cumulative distributions received from UCV exceed the sum of the Company's initial investment and the cumulative equity in income of UCV by \$15,792,373 at June 30, 2001. Although this amount is presented in the liability section of the balance sheet, the Company has no liability to repay the distributions in excess of basis in UCV. The Company estimates that the current market value of the assets of UCV (primarily apartments) exceeded its liabilities by \$20,000,000-\$27,000,000 as of June 30, 2001. On October 3, 2000, UCV obtained approval for plans to redevelop the 542 unit apartment project into 1,109 units plus an 80 unit assisted living facility. UCV is currently evaluating alternatives for financing the redevelopment.

At June 30, 2001, the Company owned a 60 percent limited partnership interest in Vail Ranch Limited Partnership (VRLP), which is a 50 percent partner in Temecula Creek, LLC (TC), a limited liability company, the other member of which is ERT Development Corporation (an affiliate of Excel). In July 2000, TC completed development of the first phase of a shopping center consisting of 60,229 square feet of space (of which 56,307 square feet is currently leased) on approximately 7 acres of land. TC is currently in the process of obtaining construction financing to construct an additional 50,032 square feet of shopping center space on the remaining 6 acres of land. The Company estimates that the value of the Company's 60 percent interest in VRLP at June 30, 2001 is approximately \$1,000,000 to \$1,500,000. In July 2000, TC completed development of 54,107 square feet of the shopping center. As of August 31, 2001 a total of 75,692 square feet had been constructed of which 100% is currently leased. The balance of the build out is expected to be completed by February 2002.

The Company is expecting a \$1,500,000 cash flow deficit in the year ending June 30, 2002 from operating activities after estimated distributions from UCV, and estimated capital expenditures (\$20,000) and scheduled principal payments on short-term and long-term debt. Management expects continuing cash flow deficits until Penley Sports develops sufficient sales volume to become profitable. However, there can be no assurances that Penley Sports will ever achieve profitable operations. Management is currently evaluating other sources of working capital from obtaining additional investors in Penley Sports to provide sufficient funds for the expected future cash flow deficits. If the Company is not successful in obtaining other sources of working capital this could have a material adverse effect on the Company's ability to continue as a going concern.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations", SFAS No. 142, "Goodwill and Other Intangible Assets" ", and SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for

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using the purchase method. SFAS No. 142 requires the use of a non-amortization approach to account for purchased goodwill. Goodwill acquired on or prior to June 30, 2001 will no longer be amortized effective January 1, 2002. Goodwill acquired on or after July 1, 2001 will follow the non-amortization approach under SFAS No. 142. Under the non-amortization approach, goodwill would be tested for impairment, rather than being amortized to earnings, as originally proposed. In addition, SFAS No. 142 requires that acquired intangible assets be separately identified and amortized over their individual useful lives. The Company will be required to adopt these statements beginning January 1, 2002. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002 and requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The Company does not expect that SFAS No. 141 and 142 will have material impact on the Company's financial position or results of operations. The Company has not yet assessed the impact of SFAS No. 143.

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 scheduled principal payments 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....	\$26,000	\$8,000	\$6,000	\$40,000	\$40,000
Weighted average interest rate...	11.8%	13.9%	13.9%	12.5%	12.5%
Variable rate debt. \$1,256,000	--	--	--	\$1,256,000	\$1,250,000
Weighted average interest rate...	7.8%	--	--	7.8%	7.8%

(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 \$1,250,000 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 March 31, 2001 for which the interest rate was 8.5 percent. However, the combination of a floor established by the lender and a cap purchased by UCV has resulted in the rate being fixed at 8.5 percent for the initial term of the loan. The 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 \$33,800,000 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.

"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 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, the Business Risks described in Item 1 of this Report on Form 10-K and elsewhere in the Company's filings with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

The discussion of Results of Operations is primarily by the Company's business segments. The analysis is partially based on a comparison of and should be read in conjunction with the business segment operating information in Note 11 to the Consolidated Financial Statements.

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The following is a summary of the changes to the components of the segments in the years ended June 30, 2001 and 2000:

	Bowling	Real Estate Operation	Real Estate Development	Golf	Unallocated And Other
YEAR ENDED JUNE 30, 2001	-----				
Revenues	\$ (368,870)	\$ (231,562)	\$ --	\$407,660	\$ (70,238)
Costs	(214,662)	(39,907)	(68,991)	434,793	--
SG&A-direct	(103,946)	--	--	(59,649)	(68,260)
SG&A-allocated	(53,906)	(13,000)	--	(7,000)	73,906
Depreciation and amortization	(67,103)	(64,306)	--	52,106	(6,458)
Impairment losses	--	--	--	--	(37,926)
Interest expense	(50,660)	(67,778)	(31,814)	(9,425)	157,220
Equity in income (loss) of investees	--	(118,443)	(99,200)	--	--
Gain on sale	482,487	2,764,483	5,544,743	--	--
Segment profit (loss)	603,894	2,599,469	5,546,348	(3,165)	(188,720)
Investment income					
Income from continuing operations					
YEAR ENDED JUNE 30, 2000	-----				
Revenues	(85,410)	76,477	--	735,654	43,388
Costs	113,520	30,332	44,661	719,119	--
SG&A-direct	(11,967)	--	--	18,289	(326,384)
SG&A-allocated	18,508	5,000	(7,000)	73,000	(89,508)
Depreciation and amortization	(4,497)	835	--	11,349	(2,162)

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Impairment losses	--	--	(90,629)	--	37,926
Interest expense	(6,329)	29,437	15,049	(8,540)	12,090
Equity in income (loss) of investees	--	(79,293)	(114,880)	--	--
Segment profit (loss)	(194,645)	(68,420)	(76,961)	(77,563)	411,426
Investment income					
Loss from continuing operations					

BOWLING OPERATIONS:

The segment includes the operations of two bowling centers, Valley Bowl and Grove Bowl. On December 21, 2000, the Company closed the operations of Valley Bowl in conjunction with the sale of the real estate on December 29, 2000. The following is a summary by bowling center of the changes in the results of operations:

	2001 vs. 2000			2000 vs. 1999	
	Grove	Valley	Combined	Grove	Valley
Revenues	256,008	(624,878)	(368,870)	5,393	(90,803)
Costs	166,375	(381,037)	(214,662)	136,579	(23,059)
SG&A-direct	6,808	(110,754)	(103,946)	(942)	(11,025)
SG&A-allocated	2,594	(56,500)	(53,906)	22,808	(4,300)
Depreciation and amortization	(84)	(67,019)	(67,103)	(5,602)	1,105
Interest expense	--	(50,660)	(50,660)	--	(6,329)
Gain on sale	--	482,487	482,487	--	--
Segment profit (loss)	80,315	523,579	603,894	(147,450)	(47,195)

2001 vs. 2000

On December 29, 2000 the Company sold the land and building occupied by the Valley Bowling Center for \$2,215,000 cash and recorded a gain of \$482,487. The proceeds of the sale were used to pay the existing loan of \$1,650,977 and selling expenses of \$167,671.

The following is a comparison of the operations of the Grove bowling center to the prior year. Grove's revenues increased 17 percent in 2001 primarily due to an 8 percent increase in number of games bowled. The average price of games bowled also increased by 9 percent. This bowling center is located in a shopping center that just completed a major renovation and "reopened" in April 2000 with

two major retail stores. As a result, the bowling center has experienced a significant increase in open and league play since the "reopening". Although management forecasts continued increases in open and league play at the bowling center, the amount of the increase and how long it will continue is uncertain. League revenues also increased because of the ability to move league bowlers from Valley when the bowl was closed in December 2000.

Bowl costs increased \$166,000 or 12% primarily due to a \$99,000 (106%) increase in utility costs and a \$55,000 (12%) increase in payroll costs. The increase in utility costs related to the increase in electric rates in San Diego that have been subsidizing since April and May of 2001 but are still substantially higher

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than the rates in 2000. Payroll costs increased primarily due to an increase in staffing related to the increase in customer bowling. There was no significant change in selling, general and administrative expenses.

2000 vs. 1999

Bowling revenues decreased by 4 percent. The number of league games bowled continued to decrease at each of the bowling centers by approximately 15% (54,000 games in total). This decrease is being partially offset by an increase in the open-play games bowled at Grove (18,000) related to the April 2000 "reopening" of the shopping.

Bowl costs increased by 6% primarily due to a \$76,000 increase in supplies and maintenance expenses. Approximately \$46,000 of the increase in maintenance expenses related to lane resurfacing or painting the exterior of a building, which are not indicative of a trend of increases in expenses to be annualized. There was no significant change in selling, general and administrative expenses.

RENTAL OPERATIONS

This segment includes the operations of the office building sold December 28, 2000, the equity in income of the operation of a 542 unit apartment project (UCV), a subleasehold interest in land underlying a condominium project, 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:

	2001 vs. 2000			2000 vs. 1999		
	Office	Others	Combined	Office	Others	Combine
Revenues	\$ (233,259)	\$ 1,697	\$ (231,562)	\$52,461	\$ 24,016	\$76,477
Costs	(57,938)	18,031	(39,907)	(25,584)	55,916	30,332
SG&A-allocated	(13,000)	--	(13,000)	5,000	--	5,000
Depreciation and amortization	(64,306)	--	(64,306)	835	--	835
Interest expense	(85,535)	17,757	(67,778)	29,437	--	29,437
Equity in income of UCV .	--	(118,443)	(118,443)	--	(79,293)	(79,293)
Gain on sale	2,764,483	--	2,764,483	--	--	--
Segment profit (loss) ...	2,752,003	(152,534)	2,599,469	42,773	(111,193)	(68,420)

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. Rental revenues decreased by \$48,000 in 2001 and increased 24,000 in 2000 related to this easement.

Rental revenues and rental costs increased by \$46,000 and \$47,000 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.

Other rental costs also increased in 2000 due to an increase in the rent expense for the subleasehold interest.

On December 28, 2000 the Company sold its office building for \$3,725,000 and recorded a gain of \$2,764,483. The consideration consisted of the assumption of the existing loan with a principal balance of \$1,950,478 and cash of \$1,662,337. The cash proceeds were net of selling expenses of \$163,197, credits for lender

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impounds of \$83,676, deductions for security deposits of \$26,463 and prepaid rents of \$6,201. The Company has been released from liability under the existing loan except for those acts, events or omissions that occurred prior to the loan assumption. The Company had occupied approximately 5,000 square feet of space in the building since 1984. The existing lease expires in September 2011. In conjunction with a lease modification with the new owner of the office building, the Company vacated the premises on April 6, 2001 and moved into the factory space occupied by its subsidiary, Penley Sports, LLC. However, because the lease commitment for the office space was a condition to the original loan agreement, the lender will only allow the Company to be conditionally released from its remaining lease obligation. In the event there is an uncured event of default by the new owner of the office building under the existing loan agreement, the Company's obligations under its lease will be reinstated to the extent there is not an enforceable lease on the Company's space.

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Office building rental revenues of the office building increased in 2000 primarily due to the continued increases in the rental rates at the office building. The vacancy rate for the office building was 3% and 1% 1999 and 2000, respectively. The average monthly rent per square foot was \$.98 and \$1.11 for 1999 and 2000, respectively. Interest expense for the office building increased in 2000 related to an increase in the long-term debt secured by the building in May of 1999.

The equity in income of UCV decreased by \$118,000 in 2001 and \$79,000 in 2000 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 2001 and 2000 compared to the previous years:

	2001	2000
	-----	-----
Revenues	\$ 261,000	\$ 202,000
Costs	(47,000)	148,000
Depreciation	(7,000)	(3,000)
Interest and amortization of loan costs	532,000	216,000
Other expenses	20,000	--
Income before extraordinary loss	(237,000)	(159,000)
Extraordinary loss from debt extinguishment	401,000	(197,000)
Net income	(638,000)	38,000

Vacancy rates at UCV have averaged 1.3% 1.7% and 2.3% in 1999, 2000 and 2001, respectively. Total revenues of UCV increased by 5 and 4 percent in 2001 and 2000, respectively, primarily due to increases in the average rental rate.

UCV costs decreased in 2001 primarily due to a decrease in repairs and maintenance costs. UCV costs increased in 2000 primarily due to an increase in water expense (\$60,000) related to increased irrigation of the property. Otherwise, costs increased 6 percent in 2000. UCV's interest expense increased in 2001 and 2000 primarily due to an increase in long-term debt in October 1999 and March 2001. UCV increased its long-term debt in May of 1998 by \$5,166,500, in October 1999 by \$4,039,490, and in March 2001 by \$3,960,510. The refinancings in May 1998 and March 2001 resulted in an extraordinary loss of \$197,000 in 1998 and \$401,000 in 2001 related to prepayment penalties and write-offs of the unamortized loan fees of the previous long-term debt.

REAL ESTATE DEVELOPMENT:

 The real estate development segment consists primarily of OVP's operations related to 33 acres of undeveloped land in Temecula, California, and an

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investment in VRLP.

Development costs consist primarily of legal expenses (\$65,000 in 2001, \$104,000 in 2000, and \$62,000 in 1999) related to the litigation regarding the effective down-zoning of the 33 acres of land and property taxes (\$88,000 in 2001, \$106,000 in 2000, and \$95,000 in 1999). Development interest primarily represents the interest portion of the assessment district payments due each year and the interest accrued on the delinquent payments.

On June 1, 2001, the OVP sold the 33 acres to an unrelated developer for \$6,375,000 cash plus assumption of the non-delinquent balance of the assessment district obligation (\$1,001,274) and recorded a gain of \$5,544,743. The cash proceeds were used to pay \$2,459,477 of delinquent taxes and assessments related to the property and \$299,458 of selling expenses. A partner in OVP holds a liquidating limited partnership interest which entitles him to 50 percent of future distributions up to \$2,450,000, of which \$1,360,000 has been paid through June 30, 2001 (\$860,000 in 2001, \$50,000 in 1999 and \$450,000 in 1998). This limited partner's capital account balance is presented as "Minority interest" in the consolidated balance sheets. Three other parties were granted liquidating partnership interests related to either their efforts with achieving the zoning approval for the 33 acres or making a loan to the Company that was used to fund payments to the County of Riverside for delinquent taxes. These partners received distributions totaling \$1,312,410 from the sale of the undeveloped land in the year ended June 30, 2001 and their limited partnership interests were liquidated. The \$1,312,410 paid to these partners is presented as "Minority interest in consolidated subsidiary" in the Statement of Operations for the year ended June 30, 2001.

The following is a summary of the changes in the operations of VRLP in 2001 and 2000 compared to the previous years:

	2001	2000
	-----	-----
Revenues	\$ (10,000)	\$ (122,000)
Operating expenses	(56,000)	78,000
Equity in loss of investee	225,000	(43,000)
Net income (loss)	(179,000)	(157,000)

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The operations for 1999 and 2000 reflected the results of negotiating property tax refunds that were non-recurring. The equity in loss of investee represents VRLP's share of the results of operations of Temecula Creek LLC which was developing a shopping center during all of 1999 and 2000 and a portion of 2001. The equity in the loss of investee represents VRLP's share of the property taxes expensed by Temecula Creek during 1999 and 2000. The equity in loss of investee in 2001 primarily represents the share of the operating loss of the shopping center as various phases were completed.

The Company recorded a \$90,629 provision for impairment loss in the year ended June 30, 1999 to reduce the carrying value of undeveloped land in Missouri to the value realized when it was sold in September 1999.

GOLF CLUB SHAFT MANUFACTURING:

 Prior to January 2000, golf club shaft sales were principally to custom golf shops. In January 2000, Penley commenced sales to two of the largest golf equipment distributors. In addition to increases in sales related to these two customers, direct sales to the after-market also increased, likely due to the credibility and increased exposure from the Penley products being included in the catalogs of these two distributors. In the year 2000, approximately 34 percent of the revenues were from sales to six golf equipment distributors, 8

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percent from small golf club manufacturers, and the remainder related to sales directly to golf shops. In the year 2001, approximately 31 percent of the revenues were from sales to seven golf equipment distributors, 12 percent from small golf club manufacturers, and the remainder related to sales directly to golf shops.

Operating expenses of the golf segment consisted of the following in 1999, 1998 and 1997:

	2001	2000	1999
	-----	-----	-----
Costs of sales and manufacturing overhead	\$1,922,000	\$1,502,000	\$ 797,000
Research and development	263,000	248,000	234,000
	-----	-----	-----
Total golf costs	\$2,185,000	\$1,750,000	\$1,031,000
	=====	=====	=====
Marketing and promotion	\$1,407,000	\$1,514,000	\$1,511,000
Administrative costs- direct	237,000	190,000	174,000
	-----	-----	-----
Total SG&A-direct	\$1,644,000	\$1,704,000	\$1,685,000
	=====	=====	=====

Total golf costs increased in 2001 and 2000 primarily due to an increase in the amount of cost of goods sold related to increased sales, a \$54,000 increase in rent for the factory that was moved into in June 2000, an increase in the cost of prototype shafts developed during the periods, and an increase in the payroll for research and development. Marketing and promotion expenses decreased in 2001 primarily due to decreases in player sponsorship costs and promotional goods. Administrative costs increased in 2001 primarily due to an increase in professional fees related to filings for trademark and patent matters.

UNALLOCATED AND OTHER:

Revenues decreased by \$70,000 in 2001 due to a decrease in brokerage commissions. Revenues increased by \$43,000 in 2000 due to a \$37,000 increase in brokerage commissions.

Unallocated and Other SG&A decreased by \$68,000 in 2001 and \$326,000 in 2000. The decrease in 2000 primarily related to \$390,000 of expense recorded in 1999 as a provision for the uncertainty of the collectability of the note receivable from affiliate. The decrease in 2001 primarily related to a \$44,000 reduction in brokerage commission fees.

Interest expense increased in 2001 and 2000 due to interest related to short term borrowings.

Investment income decreased by \$116,967 in 2000 due to the cessation of the accrual of interest income on the note receivable from shareholder (See Note 3b of the Notes to Consolidated Financial Statements).

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) The Financial Statements and Supplementary Data of Sports Arenas, Inc. and Subsidiaries are listed and included under Item 14 of this report.

ITEM 9. Changes in and Disagreements with Accountants on Accounting

and Financial Disclosure NONE

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) - (c) The following were directors and executive officers of the Company during the year ended June 30, 2001. All present directors will hold office until the election of their respective successors. All executive officers are to be elected annually by the Board of Directors.

Directors and Officers	Age	Position and Tenure with Company
Harold S. Elkan	58	Director since November 7, 1983; President since November 11, 1983
Steven R. Whitman	48	Chief Financial Officer and Treasurer since May 1987; Director and Assistant Secretary since August 1, 1989; Secretary since January 1995
Patrick D. Reiley	60	Director since August 21, 1986
James E. Crowley	54	Director since January 10, 1989
Robert A. MacNamara	53	Director since January 9, 1989

There are no understandings between any director or executive officer and any other person pursuant to which any director or executive officer was selected as a director or executive officer.

(d) Family Relationships - None

(e) Business Experience

1. Harold S. Elkan has been employed as the President and Chief Executive Officer of the Company since 1983. For the preceding ten years he was a principal of Elkan Realty and Investment Co., a commercial real estate brokerage firm, and was also President of Brandy Properties, Inc., an owner and operator of commercial real estate.

2. Steven R. Whitman has been employed as the Chief Financial Officer and Treasurer since May 1987. For the preceding five years he was employed by Laventhol & Horwath, CPAs, the last four of which were as a manager in the audit department.

3. Patrick D. Reiley was the Chairman of the Board and Chief Executive Officer of Reico Insurance Brokers, Inc. (Reico) from 1980 until June 1995, when Reico ceased doing business. Reico was an insurance brokerage firm in San Diego, California. Mr. Reiley has been a principal of A.R.I.S., Inc., an international insurance brokerage company, since 1997.

4. James E. Crowley has been an owner and operator of various automobile dealerships for the last twenty years. Mr. Crowley was President and controlling shareholder of Coast Nissan from 1992 to August 1996; and has been President of the Automotive Group since March 1994. The Automotive Group operates North County Ford, North County Jeep GMC, TAG Collision Repair, and Lake Elsinore Ford.

5. Robert A. MacNamara had been employed by Daley Corporation, a California

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corporation, from 1978 through 1997, the last eleven years of which he served as Vice President of the Property Division. Daley Corporation is a residential and commercial real estate developer and a general contractor. Mr. MacNamara is currently an independent consultant to the real estate development industry.

(f) Involvement in legal proceedings - None

Section 16(a) Compliance -Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten-percent shareholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

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To the Company's knowledge, based solely on written representations that no other reports were required, during the three fiscal years ended June 30, 1999 through 2001, all Section 16(a) filing requirements applicable to officers, directors and greater than ten-percent beneficial owners were complied with.

ITEM 11. EXECUTIVE COMPENSATION

(b) The following Summary Compensation Table shows the compensation paid for each of the last three fiscal years to the Chief Executive Officer of the Company and to the most highly compensated executive officers of the Company whose total annual compensation for the fiscal year ended June 30, 2001 exceeded \$100,000.

Name and ----- Principal Position	Year	Salary	Bonus	Other	Long-term Compen- ----- sation	All Other Compen- ----- sation
Harold S. Elkan, President	2001	\$350,000	\$100,000	\$ --	\$ --	\$ --
	2000	350,000	\$100,000	--	--	--
	1999	350,000	\$100,000	--	--	--
Steven R. Whitman, Chief Financial Officer	2001	100,000	--	--	--	--
	2000	100,000	10,000	--	--	--
	1999	100,000	10,000	--	--	--

The Company has no Long-Term Compensation Plans. Although the Company provides some miscellaneous perquisites and other personal benefits to its executives, the amount of this compensation did not exceed the lesser of \$50,000 or 10 percent of an executive's annual compensation.

(c)-(f) and (i) The Company hasn't issued any stock options or stock appreciation rights, nor does the Company maintain any long-term incentive plans or pension plans.

(g) Compensation of Directors - The Company pays a \$500 fee to each outside director for each director's meeting attended. The Company does not pay any other fees or compensation to its directors as compensation for their services as directors.

(h) Employment Contracts, Termination of Employment and Change-in-Control

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Arrangements: The employment agreement for Harold S. Elkan (Elkan), the Company's President, expired in January 1998, however, the Company is continuing to honor the terms of the agreement until such time as the Compensation Committee conducts a review and propose a new contract. Pursuant to the expired employment agreement, Elkan is to receive a sum equal to twice his annual salary (\$350,000 as of June 30, 2001) plus \$50,000 if he is discharged by the Company without good cause, or the employment agreement is terminated as a result of a change in the Company's management or voting control. The agreement also provides for miscellaneous perquisites, which do not exceed either \$50,000 or 10 percent of his annual salary. The Board of Directors has authorized that up to \$625,000 of loans can be made to Harold S. Elkan at interest rates not to exceed 10 percent.

(j) Compensation Committee Interlocks and Insider Participation: Harold S. Elkan, the Company's President, was appointed by the Company's Board of Directors as a compensation committee of one to review and set compensation for all Company employees other than Harold S. Elkan. The Company's outside Directors set compensation for Harold S. Elkan. None of the executive officers of the Company had an "interlock" relationship to report for the fiscal year ended June 30, 2001.

(k) Board Compensation Committee Report on Executive Compensation

The Company's Board of Directors appointed Harold S. Elkan as a compensation committee of one to review and set compensation for all Company employees other than Harold S. Elkan. The Board of Directors, excluding Harold S. Elkan and Steven R. Whitman, set and approve compensation for Harold S. Elkan.

The objectives of the Company's executive compensation program are to: attract, retain and motivate highly qualified personnel; and recognize and reward superior individual performance. These objectives are satisfied through the use of the combination of base salary and discretionary bonuses. The following items are considered in determining base salaries: experience, personal performance, responsibilities, and, when relevant, comparable salary

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information from outside the Company. Currently, the performance of the Company is not a factor in setting compensation levels. Annual cash bonus payments are discretionary and would typically relate to subjective performance criteria. Bonuses of \$100,000 were awarded to Harold Elkan in each of the years ended June 30, 1999 through 2001. Bonuses of \$10,000 were awarded to Steven R. Whitman in each of the years ended June 30, 1999 and 2000.

In the fiscal year ended June 30, 1993 the outside members of the Board of Directors approved a new employment agreement for Harold S. Elkan (Elkan) effective from January 1, 1993 until December 31, 1997. This agreement provided for annual base salary of \$250,000 plus discretionary bonuses as the Board of Directors may determine and approve. In setting the compensation levels in this agreement, the Board of Directors, in addition to utilizing their personal knowledge of executive compensation levels in San Diego, California, referred to a special compensation study performed in 1987 for the Board of Directors by an independent outside consultant. The Board of Directors are currently reviewing information for purposes of entering into a new employment agreement with Elkan. In the meantime, the Board of Directors approved an increase in Elkan's base pay to \$350,000 annually effective July 1, 1998.

Outside members of Board of Directors approving the Compensation
for Harold S. Elkan:

Patrick D. Reiley
James E. Crowley

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Robert A. MacNamara
 Directors' Compensation Committee for Other Employees:
 Harold S. Elkan

(1) Performance Graph: The following schedule and graph compares the performance of \$100 if invested in the Company's common stock (SAI) with the performance of \$100 if invested in each of the Standard & Poors 500 Index (S&P 500), and the Standard & Poors Leisure Time Index (S&P LT).

The performance graph and schedule provide information required by regulations of the Securities and Exchange Commission. However, the Company believes that this performance graph and schedule could be misleading if it is not understood that there is limited trading of the Company's stock. The Company's common stock has traded in the range of \$.01 to \$.02 for most of the past five years. As a result, a small increase in the per share price results in large percentage changes in the value of an investment.

The performance is calculated by assuming \$100 is invested at the beginning of the period (July 1993) in the Company's common stock at a price equal to its market value (the bid price). At the end of each fiscal year, the total value of the investment is computed by taking the number of shares owned multiplied by the market price of the shares at the end of each fiscal year.

SCHEDULE OF COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN

Year Ended	Sports Arenas, Inc.	S&P 500	S&P Leisure Time
6/1996	100	100	100
6/1997	100	200	160
6/1998	300	255	128
6/1999	200	309	116
6/2000	200	327	95
6/2001	200	275	118

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ITEM 12. Security Ownership of Certain Beneficial Owners and Management (a) - (c):

Name and Address	Shares Beneficially Owned	Nature of Beneficial Ownership	Percent of Class
Harold S. Elkan 5230 Carroll Canyon Road San Diego, California	21,808,267 (a)	Sole investment and voting power	80.0%
All directors and officer as a group	21,808,267	Sole investment and voting power	80.0%

(a) These shares of stock are owned by Andrew Bradley, Inc., which is owned by Harold S. Elkan- 88%, Andrew S. Elkan- 6%, and Bradley J. Elkan- 6%. Andrew Bradley, Inc. has pledged 10,900,000 of its shares of Sports Arenas, Inc. stock as collateral for its loan from Sports Arenas, Inc. See Note 3(c) of Notes to Consolidated Financial Statements.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a) - (c):

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1. The Company has \$394,339 of unsecured loans outstanding to Harold S. Elkan, (President, Chief Executive Officer, Director and, through his 88% owned corporation, Andrew Bradley, Inc., the majority shareholder of the Company) as of June 30, 2001 (\$463,866 as of June 30, 2000). The balance at June 30, 2001 bears interest at 8 percent per annum and is due in monthly installments of interest only plus annual principal payments of \$50,000 due on December 31 of each year. The balance is due January 1, 2002. The largest amount outstanding during the year was \$463,866 in July 2000.

Elkan's primary source of repayment of unsecured loans from the Company is withholding from compensation received from the Company. Due to the Company's financial condition, there is uncertainty about the Company's ability to continue funding the additional compensation necessary to repay the unsecured loans. Therefore, during the year ended June 30, 1999, the Company recorded a \$390,000 charge to reflect the uncertainty of the collectability of the unsecured loans. This charge was included in selling, general and administrative expense. The Company also discontinued recording the interest income on the loans except to the extent that balance of the loans remained below \$390,000. As of June 30, 2001, \$4,339 of interest accrued on the loans was unrecorded.

2. In December 1990, the Company loaned \$1,061,009 to the Company's majority shareholder, Andrew Bradley, Inc. (ABI), which is 88% owned by Harold S. Elkan, the Company's President. The loan provided funds to ABI to pay its obligation related to its purchase of the Company's stock in November 1983. The loan to ABI provides for interest to accrue at an annual rate of prime plus 1-1/2 percentage points (8.25 percent at June 30, 2001) and to be added to the principal balance annually. As of June 30, 2001 and 2000, \$1,230,483 of interest had been accrued and added to the loan balance in the financial statements. The loan is due in November 2003. The loan is collateralized by 10,900,000 shares of the Company's stock.

Effective January 1, 1999, the Company discontinued recognizing the accrual of interest income on the note receivable from shareholder. This policy was adopted in recognition that the shareholder's most likely source of funds for repayment of the loan is from sale of the Company's stock or dividends from the Company and that the Company has unresolved liquidity problems. The cumulative amount of interest that accrued but was not recorded was \$620,007 as of June 30, 2001 (\$359,797 as of June 30, 2000).

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

A. The following documents are filed as a part of this report:

1. Financial Statements of Registrant

Independent Auditors' Report	19
Sports Arenas, Inc. and subsidiaries consolidated financial statements:	
Balance sheets as of June 30, 2001 and 2000	20-21
Statements of operations for each of the years in the three-year period ended June 30, 2001	22
Statements of shareholders' deficit for each of the years in the three-year period ended June 30, 2001	23
Statements of cash flows for each of the years in the three-year period ended June 30, 2001	24-25

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Notes to financial statements 26-39

2. Financial Statements of Unconsolidated Subsidiaries

UCV, L.P. (a California limited partnership)- 50 percent owned investee:	
Independent Auditors' Report	40
Balance sheets as of March 31, 2001 and 2000	41
Statements of income and partners' deficit for each of the years in the three-year period ended March 31, 2001	42
Statements of cash flows for each of years in the three-year period ended March 31, 2001	43
Notes to financial statements	44-46

3. Financial Statement Schedules

There are no financial statement schedules because they are either not applicable or the required information is shown in the financial statement or notes thereto.

4. Exhibits

22.1 Subsidiaries of the Registrant	48
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B. REPORTS ON FORM 8-K:

No reports on Form 8-K have been filed during the last quarter of the period covered by this report.

INDEPENDENT AUDITORS' REPORT

To Board of Directors and Shareholders
Sports Arenas, Inc.:

We have audited the accompanying consolidated balance sheets of Sports Arenas, Inc. and subsidiaries (the "Company") as of June 30, 2001 and 2000, and the related consolidated statements of operations, shareholders' deficit and cash flows for each of the years in the three-year period ended June 30, 2001. These consolidated financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sports Arenas, Inc. and subsidiaries as of June 30, 2001 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

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.

KPMG LLP

San Diego, California
September 7, 2001

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS-JUNE 30, 2001 AND 2000

ASSETS

	2001	2000
	-----	-----
Current assets:		
Cash and cash equivalents	\$ 515,204	\$ 13,961
Current portion of notes receivable-affiliate (Note 3a)	--	50,000
Other receivables	324,912	193,510
Inventories (Note 2)	585,111	304,906
Prepaid expenses	61,365	238,719
	-----	-----
Total current assets	1,486,592	801,096
	-----	-----

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Receivables due after one year:		
Note receivable- Affiliate, net (Note 3a)	--	73,866
Less current portion	--	(50,000)
	-----	-----
	--	23,866
	-----	-----
Property and equipment, at cost (Notes 7 and 10):		
Land	--	678,000
Buildings	--	2,461,327
Equipment and leasehold and tenant improvements	2,345,406	2,347,767
	-----	-----
	2,345,406	5,487,094
Less accumulated depreciation and amortization	(1,060,626)	(2,160,132)
	-----	-----
Net property and equipment	1,284,780	3,326,962
	-----	-----
Other assets:		
Undeveloped land, at cost (Note 4)	--	1,501,318
Intangible assets, net (Note 5)	150,657	246,123
Investments (Note 6)	405,446	564,446
Other assets	120,999	137,425
	-----	-----
	677,102	2,449,312
	-----	-----
	\$ 3,448,474	\$ 6,601,236
	=====	=====

See accompanying notes to consolidated financial statements.

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	2001	2000
	-----	-----
Current liabilities:		
Assessment district obligation-in default (Note 4b)	\$ --	\$ 2,831,180
Notes payable-short term (Note 7d)	1,250,000	1,350,000
Current portion of long-term debt (Note 7a)	32,000	1,874,000
Accounts payable	708,307	796,483
Accrued payroll and related expenses	195,367	164,170
Accrued property taxes, in default (Note 4b)	--	356,178
Accrued interest	203,578	41,079
Other liabilities	183,466	216,009
	-----	-----
Total current liabilities	2,572,718	7,629,099
	-----	-----
Long-term debt, excluding current portion (Note 7a)	13,942	1,967,169
	-----	-----
Distributions received in excess of basis in investment (Notes 6a and 6b)	15,792,373	14,498,208
	-----	-----
Other liabilities	144,000	123,831
	-----	-----
Minority interest in consolidated subsidiary (Note 6c)	852,677	1,712,677
	-----	-----
Shareholders' deficit:		
Common stock, \$.01 par value, 50,000,000 shares authorized, 27,250,000 shares issued and outstanding ..	272,500	272,500
Additional paid-in capital	1,730,049	1,730,049
Accumulated deficit	(15,638,293)	(19,040,805)
	-----	-----
Less note receivable from shareholder (Note 3b)	(13,635,744)	(17,038,256)
	(2,291,492)	(2,291,492)
	-----	-----
Total shareholders' deficit	(15,927,236)	(19,329,748)
	-----	-----
Commitments and contingencies (Notes 4b, 5a, 6c, 8 and 10)		
	\$ 3,448,474	\$ 6,601,236
	=====	=====

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See accompanying notes to consolidated financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED JUNE 30, 2001, 2000, AND 1999

	2001	2000	1999
	-----	-----	-----
Revenues:			
Bowling	\$ 2,209,585	\$ 2,578,455	\$ 2,660,000
Rental	444,635	644,886	570,000
Golf	1,527,117	1,119,457	380,000
Other	132,442	209,671	170,000
Other-related party (Note 6b)	178,957	171,966	160,000
	-----	-----	-----
	4,492,736	4,724,435	3,950,000
	-----	-----	-----
Costs and expenses:			
Bowling	1,851,210	2,065,872	1,950,000
Rental	264,435	304,342	270,000
Golf	2,185,213	1,750,420	1,030,000
Development	156,688	225,679	180,000
Selling, general, and administrative (Note 3a)	3,177,126	3,377,670	3,700,000
Depreciation and amortization	301,260	387,021	380,000
Provision for impairment losses (Notes 4a, and 6d)	--	37,926	90,000
	-----	-----	-----
	7,935,932	8,148,930	7,610,000
	-----	-----	-----
Loss from operations	(3,443,196)	(3,424,495)	(3,650,000)
	-----	-----	-----
Other income (expenses):			
Investment income:			
Related party (Notes 3a and 3b)	28,926	38,450	140,000
Other	3,697	11,292	20,000
Interest expense related to development activities	(235,208)	(266,001)	(240,000)
Interest expense and amortization of finance costs	(390,265)	(361,929)	(340,000)
Equity in income of investees (Note 6a)	159,977	377,620	570,000
Gain on sale of office building (Note 10)	2,764,483	--	--
Gain on sale of bowling center building (Note 12)	482,487	--	--
Gain on sale of undeveloped land (Note 4b)	5,544,743	--	--
	-----	-----	-----
	8,358,840	(200,568)	150,000
	-----	-----	-----
Income (loss) from continuing operations before minority interest	4,915,644	(3,625,063)	(3,500,000)

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Minority interest in consolidated subsidiary (Note 6c) ...	(1,312,410)	--	
	<u>3,603,234</u>	<u>(3,625,063)</u>	<u>(3,500,000)</u>
Extraordinary losses from:			
Early extinguishment of debt (Note 7a)	--	--	(7,000)
Early extinguishment of investee debt (Note 6a)	(200,722)	--	(9,000)
	<u>-----</u>	<u>-----</u>	<u>-----</u>
Net income (loss)	<u>\$ 3,402,512</u>	<u>(\$3,625,063)</u>	<u>(\$3,670,000)</u>
Basic and diluted net income (loss) per common share from:			
Continuing operations	\$ 0.13	(\$ 0.13)	(\$ 0.13)
Extraordinary items	(0.01)	--	(0.01)
	<u>-----</u>	<u>-----</u>	<u>-----</u>
	<u>\$ 0.12</u>	<u>(\$ 0.13)</u>	<u>(\$ 0.14)</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>

See accompanying notes to consolidated financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
YEARS ENDED JUNE 30, 2001, 2000, AND 1999

	Common Stock		Additional paid-in Capital	Accumulated Deficit	Not Receiv Fro Shareh
	Number of Shares	Amount			
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Balance at June 30, 1998	27,250,000	\$272,500	\$1,730,049	(\$11,736,312)	(\$2,180,000)
Interest accrued	--	--	--	--	(10,000)
Net loss	--	--	--	(3,679,430)	
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Balance at June 30, 1999	27,250,000	272,500	1,730,049	(15,415,742)	(2,290,000)
Net loss	--	--	--	(3,625,063)	
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Balance at June 30, 2000	27,250,000	272,500	1,730,049	(19,040,805)	(2,290,000)
Net income	--	--	--	3,402,512	
	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>	<u>-----</u>
Balance at June 30, 2001	<u>27,250,000</u>	<u>\$272,500</u>	<u>\$1,730,049</u>	<u>(\$15,638,293)</u>	<u>(\$2,290,000)</u>
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>

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See accompanying notes to consolidated financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2001, 2000, AND 1999

	2001	2000	1999
	-----	-----	-----
Cash flows from operating activities:			
Net income (loss)	\$ 3,402,512	(\$3,625,063)	(\$3,679,000)
Adjustments to reconcile net loss to the net cash used by operating activities:			
Amortization of deferred financing costs	18,846	9,120	13,000
Depreciation and amortization	301,260	387,021	381,000
Equity in income of investees	(159,977)	(377,620)	(473,000)
Deferred income	48,000	48,000	48,000
Interest income accrued on note receivable from shareholder	--	--	(104,000)
Interest accrued on assessment district obligations	235,208	266,001	245,000
Provision for note receivable- affiliate	--	--	390,000
Provision for impairment losses	--	37,926	90,000
(Gain) loss on sale of assets	(8,781,237)	1,793	--
Minority interest in consolidated subsidiary	1,312,410	--	--
Extraordinary loss on debt extinguishment	200,722	--	78,000
Changes in assets and liabilities:			
(Increase) decrease in other receivables	(125,201)	(77,106)	50,000
(Increase) decrease in inventories	(280,205)	5,254	(7,000)
(Increase) decrease in prepaid expenses	93,678	(39,051)	46,000
Increase (decrease) in accounts payable	(88,176)	343,280	(124,000)
Increase (decrease) in accrued expenses and other liabilities	199,337	(230,906)	239,000
Other	38,317	(8,705)	26,000
Net cash used by operating activities	(3,584,506)	(3,260,056)	(2,777,000)
Cash flows from investing activities:			
Decrease in notes receivable	73,866	30,963	40,000
Additions to property and equipment	(507,336)	(335,920)	(140,000)
Proceeds from sale of office building	1,662,337	--	--
Proceeds from sale of bowling center building	2,047,328	--	--
Proceeds from sale of undeveloped land	3,616,066	190,362	--
Proceeds from sale of other assets	5,000	--	--
Increase in development costs on undeveloped land	(30,755)	(109,850)	(7,000)
Distributions received from investees	1,559,000	2,193,400	1,419,000
Contributions to investees	(200,000)	(43,319)	--

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Distribution to holders of minority interest	(2,172,410)	--	(50)
Net cash provided by investing activities	6,053,096	1,925,636	1,262
Cash flows from financing activities:			
Scheduled principal payments	(213,772)	(283,598)	(261)
Proceeds from short-term borrowings	1,200,000	1,900,000	
Payments of short-term borrowings	(1,300,000)	(550,000)	
Proceeds from refinancing of long-term debt	--	--	1,975
Loan costs	(22,598)	--	(62)
Extinguishment of long-term debt	(1,650,977)	(75,927)	(1,147)
Costs to extinguish long-term debt	--	--	(45)
Other	20,000	--	
Net cash provided (used) by financing activities	(1,967,347)	990,475	457
Net increase (decrease) in cash and equivalents	501,243	(343,945)	(1,058)
Cash and cash equivalents, beginning of year	13,961	357,906	1,416
Cash and cash equivalents, end of year	\$ 515,204	\$ 13,961	\$ 357

See accompanying notes to consolidated financial statements

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2001, 2000, AND 1999

SUPPLEMENTAL CASH FLOW INFORMATION:

	2001	2000	1999
Interest paid	\$ 196,000	\$ 326,000	\$ 341,000

Supplemental schedule of non-cash investing and financing activities:

During the year ended June 30, 2001 the Company sold equipment for \$5,000 which had a cost of \$24,250 and accumulated depreciation of \$9,240.

During the year ended June 30, 2001, the Company abandoned leasehold improvements with a cost of \$18,536 and accumulated depreciation of \$18,070.

During the year ended June 30, 2000, the Company discarded fully depreciated equipment with a cost and accumulated depreciation of \$112,829.

During the year ended June 30, 2000, the Company abandoned leasehold improvements with a cost of \$13,317 and accumulated depreciation of \$12,162.

See accompanying notes to consolidated financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2001, 2000 AND 1999

1. Summary of significant accounting policies and practices:

Description of business- The Company, primarily through its subsidiaries, owns and operates two bowling centers (one of which was closed in December 2000), an apartment project (50% owned), one office building (sold in December 2000), a graphite golf club shaft manufacturer, and undeveloped land (sold in June 2001). The Company also performs a minor amount of services in property management and real estate brokerage related to commercial leasing.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of Sports Arenas, Inc. and all subsidiaries and partnerships more than 50 percent owned or in which there is a controlling financial interest (the Company). All material inter-company balances and transactions have been eliminated. The minority interests' share of the net loss of partially owned consolidated subsidiaries have been recorded to the extent of the minority interests' contributed capital. The Company uses the equity method of accounting for investments in entities in which its ownership interest gives the Company the ability to exercise significant influence over operating and financial policies of the investee. The Company uses the cost method of accounting for investments in which it has virtually no influence over operating and financial policies.

Cash and cash equivalents - Cash and cash equivalents only include highly liquid investments with original maturities of less than 3 months. There were no cash equivalents at June 30, 2001 and 2000.

Inventories - Inventories are stated at the lower of cost (first-in, first-out) or market and relate to golf club shaft manufacturing.

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Property and equipment - Depreciation and amortization are provided on the straight-line method based on the estimated useful lives of the related assets, which are 20 years for the buildings and range from 3 to 15 years for the other assets.

Investments - The Company's purchase price in March 1975 of the one-half interest in UCV, L.P. exceeded the equity in the book value of net assets of the project at that time by approximately \$1,300,000. The excess was allocated to land and buildings based on their relative fair values. The amount allocated to buildings is being amortized over the remaining useful lives of the buildings and the amortization is included in the Company's depreciation and amortization expense.

Income taxes - The Company accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

Amortization of intangible assets - Deferred loan costs are being amortized over the terms of the loans on the straight-line method, which approximates the effective interest method. Unamortized loan costs related to loans refinanced or paid prior to their contractual maturity are written off.

Valuation impairment - SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair values of the assets.

Concentrations of credit risk - Financial instruments which potentially subject the Company to concentrations of credit risk are the notes receivable described in Note 3.

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Fair value of financial instruments - The following methods and assumptions were used to estimate the fair value of each class of financial instruments where it is practical to estimate that value:

Cash, cash equivalents, other receivables, accounts payable, and notes payable-short term - the carrying amount reported in the balance sheet approximates the fair value due to their short-term maturities.

Note receivable-affiliate - It is impractical to estimate the fair value of the note receivable-affiliate due to the related party nature of the instrument.

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Long-term debt - the fair value was determined by discounting future cash flows using the Company's current incremental borrowing rate for similar types of borrowing arrangements. The carrying value of long-term debt reported in the balance sheet approximates the fair value.

Use of estimates - Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and reported amounts of revenue and expenses during the reporting period to prepare these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

Loss per share- Basic earnings per share is computed by dividing earnings (loss) by the weighted average number of common shares outstanding during each period. Diluted earnings per share is computed by dividing the amount of income (loss) for the period by each share that would have been outstanding assuming the issuance of common shares for all potentially dilutive securities outstanding during the reporting period. The Company currently has no potentially dilutive securities outstanding. The weighted average shares used for basic and diluted earnings per share computation was 27,250,000 for each of the years in the three-year period ended June 30, 2001.

Reclassification- Certain 2000 and 1999 amounts have been reclassified to conform to the presentation used in 2001.

2. Inventories:

Inventories consist of the following:

	2001	2000
Raw materials	\$ 145,013	\$ 105,552
Work in process	200,192	107,317
Finished goods	297,906	118,437
	-----	-----
	643,111	331,306
Less valuation allowance	(58,000)	(26,400)
	-----	-----
	\$ 585,111	\$ 304,906
	=====	=====

3. Notes receivable:

(a)Affiliate - The Company made unsecured loans to Harold S. Elkan, the Company's President and, indirectly, the Company's majority shareholder, and recorded interest income of \$28,926, \$38,450, and \$40,990 in 2001, 2000, and 1999, respectively. The loans bear interest at 8 percent per annum and are due in annual installments of interest plus principal payments of \$50,000 due on December 31 of each year until maturity. The balance is due on January 1, 2002.

Elkan's primary source of repayment of unsecured loans from the Company is withholding from compensation received from the Company. Due to the Company's financial condition, there is uncertainty about the Company's ability to continue funding the additional compensation necessary to repay the unsecured loans. Therefore, during the year ended June 30, 1999, the Company recorded a \$390,000 charge to reflect the uncertainty of the collectability of the unsecured loans. This charge was included

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in selling, general and administrative expense. The Company also discontinued recording the interest income on the loans except to the extent that balance of the loans remained below \$390,000. As of June 30, 2001, \$4,339 of interest accrued on the loans was unrecorded.

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- (b) Shareholder - In December 1990, the Company loaned \$1,061,009 to the Company's majority shareholder, Andrew Bradley, Inc. (ABI), which is 88% owned by Harold S. Elkan, the Company's President. The loan provided funds to ABI to pay its obligation related to its purchase of the Company's stock in November 1983. The loan to ABI provides for interest to accrue at an annual rate of prime plus 1-1/2 percentage points (8.25 percent at June 30, 2001) and to be added to the principal balance annually. The loan is due in November 2003. The loan is collateralized by 10,900,000 shares of the Company's stock. The original loan amount plus accrued interest of \$1,230,483 is presented as a reduction of shareholders' equity because ABI's only asset is the stock of the Company. The Company recorded interest income from this note of \$104,286 in 1999.

Effective January 1, 1999, the Company discontinued recognizing the accrual of interest income on the note receivable from shareholder. This policy was adopted in recognition that the shareholder's most likely source of funds for repayment of the loan is from sale of the Company's stock or dividends from the Company and that the Company has unresolved liquidity problems. The cumulative amount of interest that accrued but was not recorded was \$620,007 as of June 30, 2001 (\$359,797 as of June 30, 2000).

4. Undeveloped land:

- (a) In August 1984, the Company acquired approximately 500 acres of undeveloped land in Lake of Ozarks, Missouri from an entity controlled by Harold S. Elkan (Elkan). The purchase price approximated the affiliate's original purchase price. On September 7, 1999, the Company sold the land for cash of \$215,000, less selling expenses of \$24,638. As a result of the sale, the Company recorded a provision for impairment loss as of June 30, 1999 of \$90,629 to reduce the carrying value to the net sales proceeds realized.
- (b) RCSA Holdings, Inc. (RCSA), a wholly owned subsidiary of the Company, owns a 50 percent managing general partnership interest in Old Vail Partners, a general partnership (OVPGP), which owned 33 acres of undeveloped land in Temecula, California. On September 23, 1999, the other partner assigned his partnership interest to Downtown Properties, Inc., a wholly owned subsidiary of the Company (see Note 6c). This land was sold on June 1, 2001.

The carrying value of the property consisted of the following as of June 30, 2000:

Acres	33
Acquisition cost	\$ 2,142,789
Capitalized assessment district costs	1,434,315
Other development planning costs	333,214

	3,910,318
Provision for impairment loss	(2,409,000)

	\$ 1,501,318

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The 33 acres of land owned by OVPGP was located within a special assessment district of the County of Riverside, California (the County) which was created to fund and develop roadways, sewers, and other required infrastructure improvements in the area necessary for the owners to develop their properties. Property within the assessment district is collateral for an allocated portion of the bonded debt that was issued by the assessment district to fund the improvements. The annual payments (required in semiannual installments) due related to the bonded debt are approximately \$144,000. The payments continue through the year 2014 and include interest at approximately 7-3/4 percent. OVPGP had been delinquent in the payment of property taxes and assessments for over the last eight years. As of June 30, 2000 the property had been subject to default judgments to the County of Riverside, California totaling approximately \$2,132,421 regarding delinquent assessment district payments (\$1,776,243) and property taxes (\$356,178).

The County had scheduled the 33 acres for public sale for the defaulted property taxes on September 27, 1999. OVPGP had unsuccessfully attempted to negotiate a payment plan with the County subject to the successful

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resolution of the zoning problems with the property described below. On September 23, 1999 OVPGP filed a petition for relief under Chapter 11 of the federal bankruptcy laws in the United States Bankruptcy Court. The primary claim affected by this action was the County's secured claim for delinquent taxes and assessment district payments. OVPGP's plan was to use the relief from stay to continue its efforts to negotiate a settlement of the zoning issues described below, and restore the economic value of the property. The bankruptcy proceeding was dismissed on February 15, 2000 with the concurrence of OVPGP. This dismissal allowed the County of Riverside to proceed with a public sale of the property within 45 days after giving notice. On June 23, 2000, the County of Riverside agreed to remove the property from the planned public sale originally scheduled for June 26, 2000 in exchange for an immediate payment of \$330,000 with the balance of property taxes due on December 29, 2000. Separately, the County of Riverside stated that a foreclosure sale related to the default judgement for assessment district payments would not be scheduled until some time after January 1, 2001. On January 19, 2001, the County of Riverside agreed to extend the due date to March 30, 2001 with three options to extend the due date to August 1, 2001. Each extension option requires a payment of \$25,000. Payments were made to extend the agreement to May 31, 2001.

As a result of the County's judgements for defaulted taxes the Company recorded a \$2,409,000 provision for impairment loss during the year ended June 30, 1997 to reduce the carrying value on the 33-acre parcel to its estimated fair market value related to the City of Temecula's effective down-zoning of the property. The estimated fair market value was determined based on cash flow projections and comparable sales.

The following is summarized balance sheet information of OVPGP included in the Company's consolidated balance sheet as of June 30, 2001 and 2000:

	2001	2000
	----	-----
Assets:		
Undeveloped land.....	--	\$1,501,318

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Liabilities:

Assessment district obligation-in default	--	2,831,180
Accrued property taxes	--	356,178

The delinquent principal, interest and penalties (\$1,776,243) and the remaining principal balance of the allocated portion of the assessment district bonds (\$1,054,937) were classified as "Assessment district obligation- in default" in the consolidated balance sheet at June 30, 2000. In addition, accrued property taxes in the balance sheet at June 30, 2000 includes \$356,178 of delinquent property taxes and late fees related to the 33-acre parcel.

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

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On June 1, 2001, the Company sold the 33 acres to an unrelated developer for \$6,375,000 cash plus assumption of the non-delinquent balance of the assessment district obligation (\$1,001,274) and recorded a gain of \$5,544,743. The cash proceeds were used to pay \$2,459,477 of delinquent taxes and assessments related to the property and \$299,458 of selling expenses.

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

	2001	2000
	-----	-----
Development costs	157,000	226,000
Allocated SG&A	20,000	20,000
	-----	-----
Loss from operations	(177,000)	(246,000)
Interest expense- development .	235,000	266,000

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	-----	-----
Loss from continuing operations	(412,000)	(512,000)
	=====	=====

5. Intangible assets:

Intangible assets consisted of the following as of June 30, 2001 and 2000:

	2001	2000
	-----	-----
Deferred lease costs:		
Subleasehold interest	\$ 111,674	\$ 111,674
Less accumulated amortization	(35,585)	(33,689)
Lease inception fee	232,995	232,995
Less accumulated amortization	(158,427)	(121,143)
	-----	-----
	150,657	189,837
	-----	-----
Deferred loan costs	--	82,598
Less accumulated amortization	--	(26,312)
	-----	-----
	--	56,286
	-----	-----
	\$ 150,657	\$ 246,123
	=====	=====

(a) The Company is a sublessor of a parcel of land that is subleased to individual owners of a condominium project. The Company capitalized \$111,674 of carrying costs prior to subleasing the land in 1980. The Company is amortizing the capitalized carrying costs over the period of the subleases on the straight-line method. The future minimum rental payments payable by the Company to the lessor on the lease are approximately \$162,000 per year for the remaining term of 42 years (aggregate of \$6,804,000). The Company is obligated to pay the greater of a base rent (currently \$162,000), adjusted every five years based on an increase in a consumer price index, or 85 percent of the minimum rent due from the sublessees. The minimum rent had been \$81,000 annually until October 1, 1998. The future minimum rents due to the Company from the sublessees are approximately \$164,000 per year for the remaining term of 42 years (aggregate of approximately \$6,888,000). The subleases provide for increases every five years based on increases in a consumer price index.

(b) In March 1997 the Company paid \$232,995 to the lessor of the real estate in which the Grove bowling center is located. The payment represented the balance due for a deferred lease inception fee. The fee is being amortized over the then remaining lease term of 75 months.

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6. Investments:

(a) Investments consist of the following:

	2001	2000
	-----	-----
Accounted for on the equity method:		
Investment in UCV, L.P.	\$ (15,792,373)	\$ (14,498,208)
Vail Ranch Limited Partnership	405,446	564,446
	-----	-----

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	(15,386,927)	(13,933,762)
Less Investment in UCV, L.P.		
classified as liability-		
Distributions received in excess		
of basis in investment	15,792,373	14,498,208
	-----	-----
	405,446	564,446
	-----	-----
Accounted for on the cost basis:		
All Seasons Inns, La Paz	37,926	37,926
Less provision for impairment loss	(37,926)	(37,926)
	-----	-----
Total investments	\$ 405,446	\$ 564,446
	=====	=====

The following is a summary of the equity in income (loss) (before extraordinary losses of \$200,722 and \$98,500 related to UCV, L.P. during the years ended June 30, 2001 and 1999, respectively):

	2001	2000	1999
	-----	-----	-----
UCV, L.P.	\$ 318,977	\$ 437,420	\$516,713
Vail Ranch Limited Partnership	(159,000)	(59,800)	55,080
	-----	-----	-----
	\$ 159,977	\$ 377,620	\$571,793
	=====	=====	=====

(b) Investment in UCV, L.P. (real estate operation segment):

The Company is a one percent managing general partner and 49 percent limited partner in UCV, L.P. (UCV) which owns University City Village, a 542 unit apartment project in San Diego, California. The following is summarized financial information of UCV as of and for the years ended March 31 (UCV's fiscal year end):

	2001	2000	1999
	-----	-----	-----
Total assets	5,109,000	\$ 3,013,000	\$ 2,556,000
Total liabilities	33,480,000	29,630,000	25,511,000
Revenues	5,085,000	4,824,000	4,622,000
Operating and general and			
administrative costs	1,611,000	1,658,000	1,510,000
Depreciation	19,000	26,000	29,000
Interest and amortization of			
loan costs	2,797,000	2,265,000	2,049,000
Other expenses	20,000	--	--
Extraordinary loss from			
early debt extinguishment	401,000	--	197,000
Net income	237,000	875,000	837,000

The apartment project is managed by the Company, which recognized management fee income of \$130,957, \$123,966, and \$117,253 in the twelve-month periods ended June 30, 2001, 2000, and 1999, respectively. In addition, pursuant to a development fee agreement with UCV dated July 1, 1998, the Company received development fees totaling \$96,000 each in the years ended June 30, 2001, 2000 and 1999, of which \$48,000 in each year was recorded as deferred income.

A reconciliation of distributions received in excess of basis in UCV as of June 30 is as follows:

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	2001	2000
	-----	-----
Balance, beginning	\$ 14,498,208	\$ 12,688,808
Equity in income, net ...	(118,255)	(437,420)
Cash distributions	1,559,000	2,193,400
Cash contributions	(200,000)	--
Amortization of purchase price in excess of equity in net assets	53,420	53,420
	-----	-----
Balance, ending	\$ 15,792,373	\$ 14,498,208
	=====	=====

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(c) Investment in Old Vail Partners and Vail Ranch Limited Partnership (real estate development segment):

RCSA and OVGP, Inc. (OVGP), wholly-owned subsidiaries of the Company, own a combined 50 percent general and limited partnership interest in Old Vail Partners, L.P., a California limited partnership (OVP). OVP owns a 60 percent limited partnership interest in Vail Ranch Limited Partnership (VRLP). The other partner in OVP holds a liquidating limited partnership interest which entitles him to 50 percent of future distributions up to \$2,450,000, of which \$1,360,000 has been paid through June 30, 2001 (\$860,000 in 2001, \$50,000 in 1999 and \$450,000 in 1998). This limited partner's capital account balance is presented as "Minority interest" in the consolidated balance sheets. Three other parties were granted liquidating partnership interests related to either their efforts with achieving the zoning approval for the 33 acres described in Note 4b or making a loan to the Company that was used to fund payments to the County of Riverside for delinquent taxes. These partners received distributions totaling \$1,312,410 from the sale of the undeveloped land in the year ended June 30, 2001 and their limited partnership interests were liquidated.

VRLP is a partnership formed in September 1994 between OVP and a third party (Developer) to develop 32 acres of the land that was contributed by OVP to VRLP. During the fiscal year ended June 30, 1997, VRLP constructed a 107,749 square foot retail complex which utilized approximately 14 of the 27 developable acres. On January 1, 1998, VRLP sold the retail complex for \$9,500,000. On August 7, 1998, VRLP executed a limited liability company operating agreement for Temecula Creek, LLC (Temecula Creek) with the buyer of the retail center to develop the remaining 13 acres. VRLP, as a 50 percent member and the manager, contributed the remaining 13 acres of developable land at an agreed upon value of \$2,000,000 and the other member contributed cash of \$1,000,000, which was distributed to VRLP as a capital distribution.

The Company recorded a provision for impairment loss of \$480,000 in June 1998 to reduce the carrying value of its investment in VRLP to reflect an amount equal to the estimated distributions the Company would receive based on the estimated fair market value of VRLP's assets and liabilities as of June 30, 1998.

As a result of the sale of the property in January 1998, OVP received distributions totaling \$1,772,511 in the year ended June 30, 1998. OVP received additional distributions totaling \$646,171 in 1999 related to the distribution VRLP received from the limited liability company and miscellaneous property tax refunds. Hereafter, VRLP's partnership agreement provides for OVP to receive 60 percent of future distributions,

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income and loss.

The following is summarized financial information of VRLP as of June 30, 2001 and 2000 and for the years then ended:

	2001	2000
	-----	-----
Assets:		
Investment in Temecula Creek .	\$ 558,000	\$ 822,000
Other assets	10,000	14,000
Total assets	568,000	836,000
Total liabilities	14,000	17,000
Partners' capital	554,000	819,000
Revenues	--	10,000
Equity in loss of Temecula Creek	(264,000)	(39,000)
Net income (loss)	(265,000)	(86,000)

The following is a reconciliation of the investment in Vail Ranch Limited Partnership:

	2000	2000
	-----	-----
Balance, beginning	\$ 564,446	\$ 580,927
Contributions	--	43,319
Equity in net income (loss)	(159,000)	(59,800)
	-----	-----
Balance, ending	\$ 405,446	\$ 564,446
	=====	=====

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(d) Other investment:

The Company owns 6 percent limited partnership interests in two partnerships that own and operate a 109-room hotel (the Hotel) in La Paz, Mexico (All Seasons Inns, La Paz). The cost basis of this investment (\$162,629) has been reduced by provisions for impairment loss of \$37,926 recorded in the year ended June 30, 2000 and \$125,000 recorded in the year ended June 30, 1991. On August 13, 1994, the partners owning the Hotel agreed to sell their partnership interests to one of the general partners. The total consideration to the Company (\$123,926) was \$2,861 cash at closing (December 31, 1994) plus a \$121,065 note receivable bearing interest at 10 percent with installments of \$60,532 plus interest due on January 1, 1996 and 1997. Due to financial problems, the note receivable was initially restructured so that all principal was due on January 1, 1997, however, only an interest payment of \$12,106 was received on that date. Because the cash consideration received at closing was minimal, the Company has not recorded the sale of its investment. The cash payments of \$27,074 received to date (representing accrued interest through December 1996) were applied to reduce the cost of the investment.

7. Long-term and short-term debt:

(a) Long-term debt consists of the following:

	2001	2000
	-----	-----
8.15% note payable collateralized by first trust deed on land and office building. Loan assumed by buyer of office building in December 2000.....	\$ --	\$1,957,592

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10-3/4% note payable collateralized by partnership interest in Old Vail Partners (OVP), principal is due in monthly payments of \$6,458 plus interest at a variable rate (prime plus 1-1/2 points) adjusted monthly. The loan is guaranteed by Harold S. Elkan. The balance is due July 2001.....	6,458	83,960
8% note payable collateralized by real estate and equipment at Valley Bowling Center. Paid in December 2000 upon sale of bowling center building.....	--	1,680,920
10-1/2% note payable collateralized by of manufacturing equipment, due in monthly installments of \$8,225, including principal and interest. Balance paid May 2001.....	--	79,138
Other.....	39,484	39,559
	-----	-----
	45,942	3,841,169
Less current maturities	(32,000)	(1,874,000)
	-----	-----
	\$ 13,942	\$1,967,169
	=====	=====

Property and equipment held as collateral for the notes are carried at historical cost less valuation adjustments.

On May 11, 1999 the Company used the proceeds of a \$1,975,000 loan to payoff an existing note payable of \$1,147,560. The prepayment of the existing note resulted in a prepayment penalty of \$45,977 and the write-off of unamortized loan fees of \$33,020, both of which were charged to extraordinary loss from early extinguishment of debt.

The principal payments due on notes payable during the next five fiscal years are as follows: \$32,000 in 2002, \$8,000 in 2003, and \$6,000 in 2004.

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- (b) In November 1997, the Company entered into a short-term loan agreement with Loma Palisades, Ltd. (Loma), an affiliate of the Company's partner in UCV, whereby Loma would lend the Company up to \$800,000. The loan bore interest at "Wall Street" prime rate plus 1 percent on the amounts drawn. Interest was payable monthly, the principal was due within 30 days of demand and the agreement expired in May 1998. During the year ended June 30, 1998, the Company borrowed \$400,000, which was paid in January and May 1998. The Company's borrowings from this short term loan averaged \$115,000 during the year ended June 30, 1998.
- (c) On August 24, 1999 and September 25, 1999 the Company borrowed a total of \$550,000 from the Company's partner in UCV on an unsecured note payable. Payments of interest only were due monthly at a base rate plus 1 percent (9-1/4% at September 25, 1999). The loan plus interest of \$4,562 was paid on October 14, 1999.
- (d) The Company borrowed a total of \$2,550,000 (\$1,350,000 and \$1,200,000 in the years ended June 30, 2000 and 2001, respectively) from the Company's partner in UCV (Lender) of which \$1,300,000 was paid during 2001. The loans are unsecured, due on demand and bear interest at monthly at a base rate plus 1 percent (7.75% at June 30, 2001). The Company admitted

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the Lender and an affiliate of the Lender as partners in Old Vail Partners with a liquidating partnership interest for which they received combined distributions of \$112,410 in the year ended June 30, 2001 and their partnership interests were liquidated. The Company's also agreed to provide the Lender with an ownership interest in Penley Sports that would provide the Lender with a 10 percent interest in profits and distributions.

8. Commitments and contingencies:

- (a) The Company leases its bowling center (Grove) under an operating lease. The lease agreement for the Grove bowling center provides for approximate annual minimum rentals in addition to taxes, insurance, and maintenance as follows: \$360,000 for each of the years 2002 through 2003 and \$720,000 in the aggregate. This lease expires in June 2003 and contains three 5-year options at rates increased by 10-15 percent over the last rate in the expiring term of the lease. This lease also provides for additional rent based on a percentage of gross revenues, however, Grove has not yet exceeded the minimum amount of gross revenue. Rental expense for Grove bowling center was \$360,000 in 2001, 2000 and 1999.

The Company also leases its golf club shaft manufacturing plant under a ten year operating lease agreement, which commenced April 1, 2000. The lease provides for fixed annual minimum rentals in addition to taxes, insurance and maintenance for each of the years ending June 30 as follows: 2002- \$227,000, 2003- \$234,000, 2004- \$241,000, 2005- \$247,000, 2006- \$247,000, thereafter- \$924,000. Commencing April 1, 2005 the lease provides for adjustments to the rent based on increases in a consumer price index, not to exceed six percent per annum. The lease also provides for two options that each extend the lease for an additional five years. The rent for the first year of the first option will be based on a five percent increase over the previous year's rent. Subsequent year's rent will be adjusted based on increases in the consumer price index. The Company had previously leased facilities for its golf club shaft manufacturing plant pursuant to an operating lease that expired June 30, 2000. Rental expense for the manufacturing facilities was \$220,688 in 2001, \$112,252 in 2000, of which \$66,760 related to the old plant, and \$53,834 in 1999.

The Company has subleased a portion of the golf club shaft manufacturing plant. The sublease commenced November 1, 2000 and continues through October 31, 2002. Rental income from this sublease was \$46,400 in the year ended June 30, 2001. The sublease calls for fixed annual minimum rentals in addition to taxes, insurance and maintenance for each of the years ending June 30 as follows: 2002- \$59,000 and 2003- \$20,000.

- (b) The Company's employment agreement with Harold S. Elkan expired on January 1, 1998, however the Company is continuing to honor the terms of the agreement until such time as it is able to negotiate a new contract. The agreement provides that if he is discharged without good cause, or discharged following a change in management or control of the Company, he will be entitled to liquidation damages equal to twice his salary at time of termination plus \$50,000. As of June 30, 2001, his annual salary was \$350,000.

- (c) The Company is involved in other various routine litigation and disputes incident to its business. In management's opinion, based in part on the

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advice of legal counsel, none of these matters will have a material adverse affect on the Company's financial position.

9. Income taxes

During the years ended June 30, 2001, 2000 and 1999, the Company has not recorded any income tax expense or benefit due to its utilization of prior loss carryforward and the uncertainty of the future realizability of deferred tax assets.

At June 30, 2001, the Company had net operating loss carry-forwards of \$10,866,000 for federal income tax purposes. The carryforwards expire from years 2002 to 2020. Deferred tax assets are primarily related to these net operating loss carryforwards and certain other temporary differences. Due to the uncertainty of the future realizability of deferred tax assets, a valuation allowance has been recorded for deferred tax assets to the extent they will not be offset by the reversal of future taxable differences. Accordingly, there are no net deferred taxes at June 30, 2001 and 2000.

The following is a reconciliation of the normal expected federal income tax rate of 34 percent to the income (loss) in the financial statements:

	2001	2000	1999
	-----	-----	-----
Expected federal income tax expense (benefit)	\$ 1,157,000	\$ (1,233,000)	\$ (1,251,000)
Increase (decrease) in valuation allowance	(1,312,000)	(121,000)	1,199,000
Expiration of net operating loss carryforward	150,000	1,340,000	--
Other	5,000	14,000	52,000
	-----	-----	-----
Provision for income tax expense	\$ --	\$ --	\$ --
	=====	=====	=====

The following is a schedule of the significant components of the Company's deferred tax assets and deferred tax liabilities as of June 30, 2001 and 2000:

	2001	2000
	-----	-----
Federal deferred tax assets (liabilities):		
Net operating loss carryforwards	\$ 3,694,000	\$ 3,653,000
Accumulated depreciation and amortization	222,000	468,000
Valuation allowance for impairment losses	683,000	1,366,000
Other	31,000	455,000
	-----	-----
Total net federal deferred tax assets	4,630,000	5,942,000
Less valuation allowance	(4,630,000)	(5,942,000)
	-----	-----
Net federal deferred tax assets	\$ --	\$ --
	=====	=====

10. Leasing activities:

The Company, as lessor, leased office space in an office building under operating leases that were primarily for periods ranging from one to five years, occasionally with options to renew. This office building was sold in December 2000. The Company is also a sublessor of land to condominium owners under operating leases with an approximate remaining term of 44 years which commenced in 1981 and 1982 (see Note 5).

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The following is a schedule of the Company's rental property included in property and equipment as of June 30, 2000:

Land	\$ 258,000
Building	773,393
Tenant improvements	140,306

	1,171,699
Accumulated depreciation	(424,821)

	\$ 746,878
	=====

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On December 28, 2000 the Company sold its office building for \$3,725,000 and recorded a gain of \$2,764,483. The consideration consisted of the assumption of the existing loan with a principal balance of \$1,950,478 and cash of \$1,662,337. The cash proceeds were net of selling expenses of \$163,197, credits for lender impounds of \$83,676, deductions for security deposits of \$26,463 and prepaid rents of \$6,201. The Company has been released from liability under the existing loan except for those acts, events or omissions that occurred prior to the loan assumption. The Company has occupied approximately 5,000 square feet of space in the building since 1984. The existing lease expires in September 2011. In conjunction with a lease modification with the new owner of the office building, the Company vacated the premises on April 6, 2001 and moved into the factory space occupied by its subsidiary, Penley Sports, LLC. However, because the lease commitment was a condition to the original loan agreement, the lender will only allow the Company to be conditionally released from its remaining lease obligation. In the event there is an uncured event of default by the new owner of the office building under the existing loan agreement, the Company's obligations under its lease will be reinstated to the extent there is not an enforceable lease on the Company's space. The future minimum rent payments under the lease agreement are as follows for the years ending June 30: \$68,000- 2002; \$70,000- 2003; \$72,000- 2004; \$75,000- 2005; \$77,000- 2006; \$443,000 thereafter and \$805,000 in the aggregate.

The following is a summary of the results from operations of the office building included in the financial statements:

	2001	2000	1999
	-----	-----	-----
Rents	\$243,000	\$477,000	\$424,000
Costs	54,000	112,000	138,000
Allocated SG&A	13,000	26,000	21,000
Depreciation	16,000	80,000	79,000
	-----	-----	-----
Income from operations	160,000	259,000	186,000
Interest expense	81,000	167,000	137,000
	-----	-----	-----
Income from continuing operations	79,000	92,000	49,000
	=====	=====	=====

11. 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. The golf club shaft manufacturing segment commenced in January 1997 when the Company acquired a small golf club shaft manufacturer.

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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.

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The following is summarized information about the Company's operations by business segment.

	Bowling	Real Estate Operation	Real Estate Development	Golf
	-----	-----	-----	-----
YEAR ENDED JUNE 30, 2001				

Revenues	\$ 2,209,585	\$ 477,620	\$ --	\$ 1,527,117
Depreciation and amortization	37,108	71,099	--	149,558
Interest expense	91,117	98,750	235,208	4,048
Equity in income of investees	--	318,977	(159,000)	--
Gain on sale of assets	482,487	2,764,483	5,544,743	--
Segment profit (loss)	140,519	3,113,796	4,973,847	(2,753,777)
Investment income	--	--	--	--
Income (loss) -continuing operations	--	--	--	--
Segment assets	217,610	118,785	840,867	2,106,825
Expenditures for segment assets	30,839	--	30,755	433,043
YEAR ENDED JUNE 30, 2000				

Revenues	\$ 2,578,455	\$ 709,182	\$ --	\$ 1,119,457
Depreciation and amortization	104,211	135,405	--	97,452
Impairment losses	--	--	--	--
Interest expense	141,777	166,528	267,022	13,473
Equity in income of investees	--	437,420	(59,800)	--
Segment profit (loss)	(463,375)	514,327	(572,501)	(2,750,612)
Investment income	--	--	--	--
Loss from continuing operations	--	--	--	--
Segment assets	1,846,575	986,767	2,066,888	1,448,947
Expenditures for segment assets	20,146	1,948	109,850	294,386
YEAR ENDED JUNE 30, 1999				

Revenues	\$2,663,865	\$ 632,705	\$ --	\$ 383,803
Depreciation and amortization	108,708	134,570	--	86,103
Impairment losses	--	--	90,629	--
Interest expense	148,106	137,091	251,973	22,013
Equity in income of investees	--	516,713	55,080	--
Segment profit (loss)	(268,730)	582,747	(495,540)	(2,673,049)
Investment income	--	--	--	--
Loss from continuing operations	--	--	--	--
Segment assets	1,997,376	1,054,729	2,644,111	1,157,089

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Expenditures for segment assets	38,960	2,383	7,454	96,271
---------------------------------------	--------	-------	-------	--------

	2001	2000	1999
	-----	-----	-----
Revenues per segment schedule	\$ 4,525,721	\$ 4,788,731	\$ 4,018,622
Intercompany rent eliminated	(32,985)	(64,296)	(61,611)
Consolidated revenues	\$ 4,492,736	\$ 4,724,435	\$ 3,957,011
	=====	=====	=====

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12. Significant Event:

On December 29, 2000 the Company sold the land and building occupied by the Valley Bowling Center for \$2,215,000 cash and recorded a gain of \$482,487. The proceeds of the sale were used to pay the existing loan of \$1,650,977 and selling expenses of \$167,672. The bowling center discontinued its operations on December 21, 2000. The following is a summary of the results of operations of the bowling center included in the financial statements:

	2001	2000	1999
	-----	-----	-----
Revenues	\$ 439,000	\$ 1,064,000	\$ 1,155,000
Costs	320,000	701,000	724,000
Direct SG&A	77,000	188,000	199,000
Allocated SG&A	33,000	89,000	94,000
Depreciation	26,000	93,000	92,000
	-----	-----	-----
Interest expense	(17,000)	(7,000)	46,000
	91,000	142,000	148,000
	-----	-----	-----
Income (loss) from continuing operations	(108,000)	(149,000)	(102,000)
	=====	=====	=====

13. Supplementary Non-Cash information:

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

	Office Building	Valley Bowl Real estate	Undeveloped Land
	-----	-----	-----
Receivables	\$ 6,201	\$ --	\$ --
Prepaid expenses	(83,676)	--	--
Property and equipment	(1,171,699)	(2,434,539)	--
Accumulated depreciation	(438,096)	(877,536)	--
Undeveloped land	--	--	(1,532,073)
Deferred loan costs	(52,200)	(7,838)	--
Other assets	(11,516)	--	--
Assessment district obligation	--	--	(3,066,388)
Property taxes in default	--	--	(394,392)
Long-term debt	(1,950,478)	--	--
Other liabilities	(26,462)	--	--

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14. Liquidity:

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses, has a working capital deficiency, and is forecasting negative cash flows for the next twelve months. These items raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent on either refinancing or selling certain real estate assets or increases in the sales volume of Penley.

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15. Quarterly financial data (unaudited):

The following summarizes the condensed quarterly financial information for the Company:

	QUARTERS ENDED 2001			
	September 30	December 31	March 31	June 30
Revenue	\$1,143,386	\$1,111,879	\$1,075,900	\$1,161,500
Total costs and expenses	2,043,891	2,098,885	2,064,240	1,728,900
Gain on sale	--	3,246,970	--	5,544,700
Other income & expense, net	(158,222)	(150,023)	(42,575)	(82,000)
Minority interest	--	--	--	(1,312,400)
Income (loss) before extraordinary items ...	(1,058,727)	2,109,941	(1,030,915)	3,582,900
Basic and diluted net income (loss) per common share from:				
Continuing operations	(.04)	.08	(.04)	.13
Net income (loss)	(.04)	.08	(.04)	.12

	QUARTERS ENDED 2000			
	September 30	December 31	March 31	June 30
Revenue	\$ 931,613	\$1,000,490	\$1,418,100	\$1,374,200
Total costs and expenses	1,831,993	1,927,187	2,164,766	2,224,900
Other income & expense, net	(819)	(39,306)	(90,353)	(70,000)
Income (loss) before extraordinary items ...	(901,199)	(966,003)	(837,019)	(920,800)
Basic and diluted net income (loss) per common share from:				
Continuing operations	(.03)	(.04)	(.03)	(.03)
Net income (loss)	(.03)	(.04)	(.03)	(.03)

Certain 2001 and 2000 amounts have been reclassified to conform to the presentation used in these financial statements.

INDEPENDENT AUDITORS' REPORT

General Partners
UCV, L.P., a California limited partnership:

We have audited the accompanying balance sheets of UCV, L.P., a California limited partnership, as of March 31, 2001 and 2000, and the related statements of income and partners' deficit and cash flows for each of the years in the three-year period ended March 31, 2001. These financial statements are the responsibility of UCV, L.P.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UCV, L.P., a California limited partnership, as of March 31, 2001 and 2000, and the results of its operations and its cash flows for each of the years in the three-year period ended March 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

San Diego, California
June 27, 2001

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UCV, L.P.
(a California Limited Partnership)
BALANCE SHEETS - MARCH 31, 2001 and 2000

ASSETS

	2001	2000
	-----	-----
Property and equipment (Note 3):		
Land	\$ 1,289,565	\$ 1,289,565
Buildings	5,189,188	5,189,188
Equipment	533,585	529,825
	-----	-----
	7,012,338	7,008,578
Less accumulated depreciation	(5,689,221)	(5,670,346)
	-----	-----
	1,323,117	1,338,232
Cash	726,041	293,684
Restricted cash (Note 3)	807,031	157,420
Accounts receivable	12,110	12,167
Prepaid expenses	97,323	109,199
Redevelopment planning costs	1,237,621	831,154
Deferred loan costs, less accumulated amortization of \$60,254 in 2001 and \$295,196 in 2000	905,511	270,767
	-----	-----
	\$ 5,108,754	\$ 3,012,623
	=====	=====

LIABILITIES AND PARTNERS' DEFICIT

Long-term debt (Note 3)	\$ 33,000,000	\$ 29,039,490
Accounts payable	91,804	156,529
Accrued interest	155,533	208,053
Other accrued expenses	23,817	30,559
Tenants' security deposits	208,533	195,534
	-----	-----
	33,479,687	29,630,165
Partners' deficit	(28,370,933)	(26,617,542)

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-----	-----
\$ 5,108,754	\$ 3,012,623
=====	=====

See accompanying notes to financial statements.

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UCV, L.P.
(a California Limited Partnership)
STATEMENTS OF INCOME AND PARTNERS' DEFICIT
YEARS ENDED MARCH 31, 2001, 2000 AND 1999

	2001	2000	1999
	-----	-----	-----
Revenues:			
Apartment rentals	\$ 4,903,939	\$ 4,650,709	\$ 4,455,235
Other rental related	180,718	173,092	166,529
	-----	-----	-----
	5,084,657	4,823,801	4,621,764
	-----	-----	-----
Costs and expenses:			
Operating	1,243,651	1,299,381	1,186,348
General and administrative	238,152	236,045	207,828
Management fees, related party (Note 2)	129,102	122,194	116,088
	-----	-----	-----
	1,610,905	1,657,620	1,510,264
	-----	-----	-----
Income before depreciation, interest and other expense	3,473,752	3,166,181	3,111,500
Depreciation	(18,875)	(26,336)	(28,563)
Other expense	(20,000)	--	--
Interest and amortization of loan costs	(2,796,924)	(2,264,888)	(2,049,110)
	-----	-----	-----
Income before extraordinary loss	637,953	874,957	1,033,827

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Extraordinary loss from the early extinguishment of debt	(401,444)	--	(197,401)
Net income	236,509	874,957	836,426
Partners' deficit, beginning of year	(26,617,542)	(22,954,999)	(18,344,925)
Cash distributed to partners	(1,989,900)	(4,537,500)	(5,446,500)
Partners' deficit, end of year	<u>\$ (28,370,933)</u>	<u>\$ (26,617,542)</u>	<u>\$ (22,954,999)</u>

See accompanying notes to financial statements.

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UCV, L.P.
(a California Limited Partnership)
STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2001, 2000 AND 1999

	2001	2000	1999
	-----	-----	-----
Cash flows from operating activities:			
Net income	\$ 236,509	\$ 874,957	\$ 836,426
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	18,875	26,336	28,500
Amortization of deferred loan costs	204,837	159,819	145,300
Extraordinary loss from extinguishment of debt	401,444	--	197,401
Other	20,000	--	--
Changes in assets and liabilities:			
(Increase) decrease in restricted cash	(57,478)	(46,861)	5,800
Decrease in accounts receivable	57	1,810	14,600
(Increase) decrease in prepaid expenses	11,876	(4,533)	(4,100)
Increase (decrease) in accounts payable and other accrued expenses	(71,467)	6,035	80,100
Increase (decrease) in accrued interest	(52,520)	57,359	150,600
Other	12,999	15,825	3,900

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Net cash provided by operating activities	725,132	1,090,747	1,458,8
Net cash from investing activities:			
Additions to redevelopment planning costs	(406,467)	(498,041)	(303,6
Additions to property and equipment	(3,760)	(16,965)	(37,4
Net cash used by investing activities	(410,227)	(515,006)	(341,0
Cash flows from financing activities:			
Principal payments on long-term debt	(560,803)	--	--
Extinguishment of long-term debt	(28,478,687)	--	(19,833,5
Costs related to early extinguishment of long-term debt	(295,260)	--	(157,5
Proceeds from long term debt	33,000,000	4,039,490	25,000,0
Refund of restricted cash held by lender	161,907	--	--
Funding of restricted cash from loan proceeds	(754,040)	--	--
Loan costs	(965,765)	(122,914)	(383,0
Cash distributed to partners	(1,989,900)	(4,537,500)	(5,446,5
Net cash provided (used) by financing activities .	117,452	(620,924)	(820,5
Net increase (decrease) in cash	432,357	(45,183)	297,1
Cash, beginning of year	293,684	338,867	41,6
Cash, end of year	\$ 726,041	\$ 293,684	\$ 338,8
Supplemental cash flow information:			
Interest paid	\$ 2,644,607	\$ 2,047,710	\$ 1,753,0

Non-cash investing activities:

In the year ended March 31, 1999 the Partnership disposed of fully depreciated assets with a cost and accumulated depreciation of \$22,213.

See accompanying notes to financial statements.

UCV, L.P.
(a California Limited Partnership)
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2001, 2000 AND 1999

1. Organization and Summary of Significant Accounting Policies:

(a) Organization- Effective June 1, 1994 the form of organization was changed from a joint venture to a limited partnership and the name of the entity

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was changed from University City Village to UCV, L.P., a California limited partnership (the Partnership). The Partnership conducts business as University City Village.

- (b) Leasing arrangements- The Partnership leases apartments under operating leases that are substantially all on a month-to-month basis. The apartment operations are the Partnership's only business segment.
- (c) Property and equipment and depreciation- Property and equipment are stated at cost. Depreciation is provided using the straight-line method based on the estimated useful lives of the property and equipment (33 years for real property and 3-10 years for equipment). The depreciable basis of the property and equipment for tax purposes is essentially the same as the financial statement basis.
- (d) Income taxes- For income tax purposes, any profit or loss from operations is includable in the income tax returns of the partners and, therefore, a provision for income taxes is not required in the accompanying financial statements.
- (e) Redevelopment planning costs- The Partnership capitalizes engineering, architectural and other costs incurred related to the planning of the possible redevelopment of the apartment project.
- (f) Deferred loan costs- Costs incurred in obtaining financing are amortized using the straight-line method over the term of the related loan.
- (g) Fair value of financial instruments - The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

Cash, restricted cash, accounts receivable, accounts payable, accrued interest and other accrued expenses- the carrying amount reported in the balance sheet approximates the fair value due to their short-term maturities.

Long-term debt - The carrying value of long-term debt reported in the balance sheet approximates the fair value based on management's belief that the interest rates and terms of the debt are comparable to those commercially available to the Partnership in the marketplace for similar instruments.

- (h) Derivative Financial Instruments- The Partnership adopted Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) on January 1, 2001. As a result of refinancing the Partnership's long-term debt, the new loan agreement requires the Partnership to maintain an interest rate cap (the Cap) on the notional principal amount of the debt. The Partnership uses this derivative financial instrument to effectively manage the interest rate risk of its variable rate note payable. Accounting for any gains or losses resulting from changes in the market value of the derivative depend upon the use of the derivative and whether it qualifies for hedge accounting.

The instrument was negotiated with a high credit quality counterparty, therefore, the risk of nonperformance by the counterparty is considered to be negligible. See additional information regarding financial instruments in Note 4.

- (i) Use of estimates - Management of the Partnership has made a number of estimates and assumptions relating to the reporting of assets and

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liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period to prepare these financial statements in conformity with accounting principles general accepted in the United States of America. Actual results could differ from these estimates.

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UCV, L.P.
 (a California Limited Partnership)
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 YEARS ENDED MARCH 31, 2001, 2000 AND 1999

(j) Valuation impairment-Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair values of the assets.

2. Related party transactions:

An affiliate of a partner provides management services for an unspecified term to the Partnership and is paid a fee equal to 2-1/2 percent of gross revenues, as defined.

In July 1998 the Partnership entered into development services agreements with two affiliates of a partner. The agreements are cancelable on 30 days notice and relate to planning for redevelopment of the apartments. During the years ended March 31, 2001, 2000 and 1999, the affiliate was paid \$96,000, \$96,000 and \$72,000, respectively, for these development services.

3. Long-term debt:

On March 8, 2001, the Partnership paid its existing \$28,478,687 note payable with the proceeds from a \$33,000,000 loan. The new loan provides for monthly payments of interest only at a variable rate of interest equal to LIBOR (not less than 6 percent) plus 2-1/2 percentage points. UCV paid a fee to cap LIBOR at 6 percent. The note payable matures August 2002 but may be extended for two 12-month periods upon entering into an agreement to cap LIBOR at 7 percent. The loan may be prepaid at any time, however, there are prepayment fees as follows: 3 percent if paid prior to the sixth payment date; 1-1/2 percent if paid prior to the ninth payment date; 1 percent if paid prior to the twelfth payment date; and none thereafter. The note payable is collateralized by the land, buildings, leases and security deposits. The refinancing resulted in charges of \$401,444 related to the prepayment penalty of \$295,260 and \$106,184 of the unamortized portion of deferred loan costs related to the old note payable. These charges were classified as an extraordinary loss from extinguishment of debt in the financial statements.

	2001	2000
	-----	-----
Payable in monthly installments of interest only based on a rate of 8-1/2% per annum.	\$33,000,000	\$ --
Payable through April 2000 in monthly		

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installments of interest only (7.94% as of March 31, 2000) based on a variable rate of interest equal to LIBOR plus 2 percentage points, thereafter payable in monthly installments of interest plus principal based on a 25 year amortization schedule	--	25,000,000
Payable through April 2000 in monthly installments of interest only (10.69% as of March 31, 2000) based on a variable rate of interest equal to the greater of 10% or LIBOR plus 4.75 percentage points, thereafter payable in monthly installments of interest plus principal based on a 25 year amortization schedule. Additional principal payments are due quarterly equal to 50% of the quarterly cash flow.	--	4,039,490
Total	\$33,000,000	\$29,039,490

UCV, L.P.
(a California Limited Partnership)
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED MARCH 31, 2001, 2000 AND 1999

The Partnership is required to make monthly payments of approximately \$16,290 to a property tax and insurance impound account maintained by the lender. Additionally, \$754,040 was deducted from the loan proceeds and is being held by the lender as a "capital" replacement reserve. The Partnership is also required to keep an amount equal to fifty percent of the tenant security deposits in a separate account at a bank designated by the lender. This account was established and funded with \$110,000 on June 18, 2001. Restricted cash represents the balance of the tax impound and replacement reserve accounts and the bank accounts used for security deposits.

4. Interest Rate Cap:

The Partnership adopted SFAS 133 on January 1, 2001. Due to the extensive documentation and administration requirements of SFAS 133, the Partnership's derivative instrument does not currently qualify for hedge accounting treatment. Although the Partnership's Cap is designed as a cash flow hedge, the Partnership cannot adopt hedge accounting treatment, until all required documentation is completed and hedging criteria is met. Since SFAS 133 requires that all unrealized gains and losses on derivatives not qualifying for hedge accounting be recognized currently through earnings, the Partnership accounted for the Cap in this manner. As of March 31, 2001 the Partnership recorded a loss of \$20,000 in other expense in the income statement for the change in the value of the Cap since inception of the transaction on March 8, 2001.

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SIGNATURES

Pursuant to the Requirements of Section 13 or 15(d) 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.

(Registrant) SPORTS ARENAS, INC.

By (Signature and Title) /s/ Harold S. Elkan

Harold S. Elkan, President & Director

DATE: OCTOBER 12, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
-----	-----	-----
/s/ Steven R. Whitman ----- Steven R. Whitman	Chief Financial Officer, Director, and Principal Accounting Officer	October 12, 2001 -----
/s/ Robert A. MacNamara ----- Robert A. MacNamara	Director	October 12, 2001 -----
/s/ Patrick D. Reiley ----- Patrick D. Reiley	Director	October 12, 2001 -----

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SUBSIDIARIES OF REGISTRANT

State of Incorporation	Subsidiary
-----	-----
New York	Cabrillo Lanes, Inc.
Delaware	Downtown Properties, Inc.
California	Old Vail Partners, a California general partnership (50% general partner)
California	Downtown Properties Development Corp.
California	UCVGP, Inc.
California	UCV, L.P. (1% general partner)
California	Sports Arenas Properties, Inc.
California	UCV, L.P. (49% limited partner)
California	Ocean West, Inc.
California	RCSA Holdings, Inc.
California	Old Vail Partners, a California general partnership (50% general partner)
California	Old Vail Partners, L.P. (49% limited partner)
California	Vail Ranch Limited Partnership (50% limited partner)
California	OVGP, Inc.
California	Old Vail Partners, L.P. (1% general partner)
California	Ocean Disbursements, Inc.
California	Bowling Properties, Inc.
California	Penley Sports, LLC (90% managing member)

All subsidiaries are 100% owned, unless otherwise indicated, and are included in the Registrant's consolidated financial statements, except for Vail Ranch Limited Partnership and UCV, L.P.