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SPORTS ARENAS INC
Form 10-K
January 03, 2005

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, 2004

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 No

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.

The aggregate market value of the voting stock held by non-affiliates (5,441,733 shares) of the Registrant as of September 25, 2004 was \$283,000 (based on average of bid and asked prices). The number of shares of common stock outstanding as of September 25, 2004 was 10,883,467.

Documents Incorporated by Reference - None.

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 currently owns a graphite golf club shaft manufacturing company and an approximate 35% partnership interest in UCV, L.P., a California limited partnership ("UCV") which owns three commercial real estate. Prior to the dates indicated below, the Company owned and operated a bowling center and, owned a 50% partnership interest in UCV which owned a 542-unit apartment complex. The bowling center closed on May 31, 2003 in conjunction with the expiration of the lease for its premises and UCV sold the apartment complex on April 1, 2003. The Company has its principal executive office at 7415 Carroll Road, Suite C, San Diego, California. The Company presently has approximately 25 employees. The following is a summary of the revenues of each segment (excluding discontinued operations) stated as a percentage of total revenues for each of the last three years:

	2004	2003	2002
	----	----	----
Real estate operations	3	2	6
Golf	94	75	79
Other	3	23	15

(a) Real Estate Operations

(1) Real Estate Development - Prior to February 22, 2003, the Company owned a 60% interest in Vail Ranch Limited Partners (VRLP), a California limited partnership, which owned a 50% ownership interest in Temecula Creek, LLC (TC), a California limited liability company. TC owned a 13 acre parcel of undeveloped land in Temecula, California. TC was in the process of developing the land when the other member purchased VRLP's interest in TC on February 22, 2003. The Company received distributions from VRLP from the proceeds of the sale in 2003 and 2004.

(2) Commercial Real Estate Rental - Real estate rental operations during the year ended June 30, 2004 consisted of a sublease of a portion of the premises leased by a Company subsidiary in San Diego, California, and a 35% ownership interest UCV, which owns two commercial real estate properties in San Diego, California and one commercial real estate property in Los Angeles, California.

UCVGP, Inc., through its wholly owned subsidiary, UCVNV, Inc., and Sports Arenas Properties, Inc. (SAPI), wholly-owned subsidiaries of the Company, are a one percent managing general partner and a 35 percent limited partner, respectively, in UCV, L.P. (UCV). UCV acquired University City Village, a 542 unit apartment project (University City Village) located in San Diego, California, in August 1974 and sold it on April 1, 2003. Following the sale, UCV distributed approximately \$3,769,000 to its Company-affiliated partners. These distributions served to reduce the Company's beneficial ownership of UCV from 50% to 35%.

Following this sale, UCV used the net sale proceeds available after distributions to its partners as a portion of the total consideration to acquire three commercial real estate properties in so-called "like-kind" exchange transactions intended to cause deferral of federal income taxation on the net sale proceeds used in such acquisitions. On August 28, 2003, 760, LLC, a

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California limited liability company wholly owned by UCV, acquired a property in San Diego, California with 50,667 square feet of retail and office space for approximately \$9,500,000. The purchase was financed with loans totaling \$6,926,500. Both loans are collateralized by the acquired property. On September 25, 2003, 939 LLC, a California limited liability company wholly owned by UCV, acquired a second property in San Diego, California with 23,567 square feet of retail and office space for approximately \$5,000,000. The purchase was financed with the assumption of an existing \$2,636,811 note payable that is collateralized by the acquired property. On September 26, 2003, UCV Media Tech Center, LLC, a California limited liability company wholly owned UCV, acquired a property in Los Angeles, California with 187,534 square feet of office and industrial space for approximately \$28,670,000. The purchase was financed with a \$20,000,000 note payable, which is collateralized by the acquired property.

(b) Golf Club Shaft Manufacturing

On September 16, 2004 the Company committed to a plan of disposal of the graphite golf club shaft operation owned by Penley Sports, LLC (Penley). The Company is currently in negotiations to sell Penley to the former owner, Carter Penley. Carter Penley has verbally agreed to fund any cash flow deficits from November 1, 2004 until a sale is consummated or until the negotiations end. In either event, the Company will not be required to repay the advances unless the Company ceases negotiations without cause.

(c) Other (Bowling Operations)

The Company's wholly owned subsidiary, Cabrillo Lanes, Inc. (the Bowl), operated one 60 lane bowling center located in San Diego, California until it closed on May 31, 2003 in conjunction with the expiration of its lease. The Company had operated another 50 lane bowling center in San Diego, California until it was closed on December 21, 2000 in conjunction with the sale by the Company of the land and building. The Company purchased these bowling operations in August 1993

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(d) Industry Segment Information:

See Note 9 of Notes to Consolidated Financial Statements for required industry segment financial information.

ITEM 2. Properties

Penley 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 March 31, 2020. The Company's corporate offices are located in this space. Penley has subleased approximately 10,000 square feet to a third party pursuant to a two year lease that expires in October 2004.

ITEM 3. Legal Proceedings

A lawsuit was filed on January 10, 2003 in the United States District Court for the Southern District of California by Masterson Marketing, Inc. (Masterson) against Penley Sports, LLC. Masterson's lawsuit originally asserted claims for copyright infringement, breach of contract and breach of fiduciary duty, and sought compensatory damages, punitive damages, statutory damages, and attorney fees. The Company filed a motion to dismiss all claims. In response to that motion, Masterson dropped all claims except those for claims of copyright infringement and breach of contract. Masterson also dropped all prayers for punitive damages, statutory damages, and attorney fees. It is not possible at this time to predict the outcome of this litigation. We intend to vigorously defend against these claims.

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ITEM 4. Submissions of Matters to a Vote of Security Holders: None

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.

	2004		2003	
	High	Low	High	Low
First Quarter	\$.02	\$.01	\$.03	\$.02
Second Quarter	\$.02	\$.01	\$.02	\$.02
Third Quarter	\$.04	\$.02	\$.02	\$.02
Fourth Quarter	\$.05	\$.02	\$.02	\$.02

- (b) The number of holders of record of the common stock of the Company as of September 25, 2004 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,				
	2004	2003	2002	2001	2000
Revenues	\$2,820,865	\$4,043,550	\$3,295,300	\$2,283,151	\$2,145,980
Loss from operations	(4,296,131)	(1,329,173)	(2,071,750)	(3,015,657)	(2,857,218)
Income (loss) from Continuing operations	(2,793,627)	19,098,581	(2,186,520)	(399,444)	(2,589,187)
Basic and diluted income (loss) per common share from continuing operations	(0.10)	0.70	(0.08)	(0.02)	(0.10)
Total assets	7,129,139	12,731,967	2,903,403	3,448,474	6,601,236
Long-term debt, excluding current portion	67,232	--	5,456	13,942	1,967,169

See Notes 4, 6(c), 8, and 10 of Notes to Consolidated Financial Statements regarding disposition of business operations and material uncertainties.

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

LIQUIDITY AND CAPITAL RESOURCES

The independent auditors' report dated November 15, 2004 on the Company's consolidated financial statements for the year ended June 30, 2004 included with this Annual Report on Form 10-K contains the following explanatory paragraph:

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 11 to the consolidated financial statements, the Company has suffered recurring losses 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 11. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As noted below, the recurring losses and negative cash flows relate to the Company's golf club shaft manufacturing operations. The Company has not been successful in its efforts to increase sales, reduce manufacturing costs or obtain additional investors for this operation. As a result, on September 16, 2004, the Company committed to a plan of disposal of the graphite golf club shaft operation owned. The Company is currently in negotiations to sell Penley to the former owner, Carter Penley. Carter Penley has verbally agreed to fund any cash flow deficits from November 1, 2004 until a sale is consummated or until the negotiations end. In either event, the Company will not be required to repay the advances unless the Company ceases negotiations without cause.

The Company is expecting a \$500,000 cash flow deficit in the year ending June 30, 2005 from operating activities after estimated distributions from UCV (\$420,000, primarily distributions from real estate operations), estimated capital expenditures (\$3,000) and scheduled principal payments on long-term debt, excluding any estimated payments to be received from the sale of Penley. This analysis does not include the obligation to pay federal and state income taxes totaling \$979,000 related to the taxable income reported from the sale of apartment project owned by UCV. Management is currently uncertain about how it will obtain the funds to pay these tax liabilities.

Management is currently evaluating other sources of working capital including the proceeds that would become available for distribution to the Company from refinancing the debt related to one of the properties owned by UCV or selling one of the properties owned by UCV. Management has not assessed the likelihood of any other sources of long-term or short-term liquidity. If the Company is not successful in obtaining other sources of working capital this could have a material adverse effect on the Company's ability to continue as a going concern. However, other than the tax liabilities noted above, management believes it will be able to meet its financial obligations for the next twelve months.

The Company had a working capital deficit of \$422,329 at June 30, 2004, which is a \$1,483,882 decrease in working capital from the working capital of \$1,061,553 at June 30, 2003. Working capital decreased primarily due to cash used by operations of \$3,335,000. The use of funds by operations was partially offset by \$1,712,000 of distributions received from UCV (\$1,557,000) and VRLP (\$155,000).

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

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	2004	2003	2002
	-----	-----	-----
Continuing operations:			
Rental	\$ 5,000	\$ (2,000)	\$ (4,000)
Golf	(2,246,000)	(1,440,000)	(1,647,000)
General corporate expense and other	(70,000)	100,000	(111,000)
Income taxes-current	(979,000)	--	--
	-----	-----	-----
Total continuing operations	(3,290,000)	(1,342,000)	(1,762,000)
Discontinued operations:			
Bowling	166,000	(192,000)	26,000
Development	--	--	--
	-----	-----	-----
Total cash used	(3,124,000)	(1,534,000)	(1,736,000)
Capital expenditures	(194,000)	(18,000)	--
Principal payments on long-term debt	(17,000)	(8,000)	(32,000)
	-----	-----	-----
	(3,335,000)	(1,560,000)	(1,768,000)
	=====	=====	=====
Distributions received from investees:			
From UCV proceeds of refinance	--	--	1,700,000
From UCV sale proceeds of property			
April 2003	1,269,000	2,500,000	--
From UCV operations	288,000	526,000	403,000
From VRLP sale proceeds of TC	155,000	592,000	--
	-----	-----	-----
Total	1,712,000	3,618,000	2,103,000
	=====	=====	=====
Proceeds from sale of assets	110,000	19,000	31,000
	=====	=====	=====
Payments to minority interests	(73,000)	(371,000)	(50,000)
	=====	=====	=====

On April 1, 2003, UCV sold its 542 unit apartment project for \$58,400,000 in cash. The net sale proceeds to UCV was approximately \$19,298,000. UCV distributed approximately \$3,769,000 of such proceeds to the Company in partial liquidation of its partnership interest in UCV, reducing its ownership interest from 50 percent to 35 percent. UCV used the balance of the proceeds to purchase three properties as part of tax-deferred like-kind-exchange transactions.

One of the properties purchased by UCV is subject to a loan agreement that requires Sports Arenas, Inc. to maintain a minimum net worth of \$1,000,000. As of June 30, 2004, the Company did not meet this requirement. UCV is in the process of requesting a waiver from the lender regarding this covenant. However, it is uncertain whether the lender will grant a waiver. If UCV is unable to obtain a waiver from the lender, the lender could call the loan due.

In February 2003, Vail Ranch Limited Partners (VRLP), a California limited partnership in which the Company holds a 60% ownership, sold its interest in Temecula Creek LLC (TC) to its other partner in TC (ERT). The sale price consisted of \$1,318,180 cash and one-half of the sale proceeds from the remaining parcel of undeveloped land owned by TC when it was sold. \$100,000 of the sales proceeds were held in an escrow to be applied to any post closing claims ERT may have related to warranties and normal prorations in the sale contract for the TC interest. The cash proceeds to VRLP of \$1,218,180 were partially offset by \$225,000 of fees paid to one of the VRLP partners. The Company received a distribution of \$592,776 in 2003 of which \$370,838 was paid to the holder of the minority interest in Old Vail Partners. In the year ended June 30, 2004, VRLP received \$288,071 as its share of the proceeds from the sale of the undeveloped land, the balance of the hold back, and final settlement for

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allocation of revenues and expenses. The Company received \$155,009 of distributions from VRLP related to these transactions. The Company is not expecting any further distributions from VRLP. As part of the Company's obligation to pay approximately one-half of these proceeds to its minority partner, \$73,000 was paid to the minority partner during the year ended June 30, 2004. The remaining balance of the minority interest of \$358,839 was adjusted to \$15,000 to reflect the estimate of the final amount due the minority partner.

CRITICAL ACCOUNTING POLICIES

Our accounting policies are more fully described in Note 1 of the Notes to Consolidated Financial Statements. As disclosed in Note 1, the preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions about future events that affect the amounts reported in the financial statements and related notes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such differences may be material to the financial statements.

We believe that of our significant accounting policies, the following may involve a higher degree of judgment, estimation, or complexity than other accounting policies.

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Allowance for Doubtful Accounts: We evaluate the collectibility of accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations, a specific reserve is recorded against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Additional reserves are established based upon our perception of the quality of the current receivables, the current financial position of our customers and past experience of collectibility. If the financial condition of our customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances would be required.

Income Taxes: We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We evaluate the recoverability of any tax assets recorded on the balance sheet and provide any necessary allowances as required. The carrying value of the net deferred tax assets assumes that we will be able to generate sufficient future taxable income based on estimates and assumptions. If these estimates and related assumptions change in the future, we may be required to record additional valuation allowances against our deferred tax assets resulting in additional income tax expense in our Consolidated Statements of Operations. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income, carry back opportunities, and tax planning strategies in making the assessment. We evaluate the ability to realize the deferred tax assets and assess the need for additional valuation allowances quarterly. In addition, we are subject to income tax laws and judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. The final outcome of these future tax consequences, tax audits, and changes in regulatory tax laws and rates could materially impact our financial statements.

Inventory Valuation: Inventories are valued at the lower of cost or market. Certain items in inventory may be considered impaired, obsolete or excess, and as such, we may establish an allowance to reduce the carrying value of these

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items to their net realizable value.

Long-Lived Assets: We review our long-lived assets for impairment whenever events or changes in circumstances indicate 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 the assets to the future net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Judgments made by us related to the expected useful lives of long-lived assets and our ability to realize any undiscounted cash flows in excess of the carrying amounts of such assets are affected by factors such as the ongoing maintenance and improvements of the assets, changes in the expected use of the assets, changes in economic conditions, changes in operating performance and anticipated future cash flows. Since judgment is involved in determining the fair value of long-lived assets, there is risk that the carrying value of our long-lived assets may require adjustment in future periods. If actual fair value is less than our estimates, long-lived assets may be overstated on the balance sheet and a charge would need to be taken against earnings.

NEW ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards, No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities, or SFAS No. 149, amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, SFAS No. 149 clarifies under what circumstances a contract within an initial net investment meets the characteristic of a derivative and when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003, and is not expected to have a material impact on the Company's consolidated financial statements.

Statement of Financial Accounting Standards, No. 150 Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity, or SFAS No. 150, establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. At the October 29, 2003 FASB Board meeting, the Board decided to indefinitely defer the effective date of SFAS No. 150 related to the classification and measurement requirements for mandatorily redeemable financial instruments that become subject to SFAS No. 150 solely as a result of consolidation, such as the minority interest in the accompanying financial statements.

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In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which was issued in January 2003. The Company will be required to apply FIN 46R to variable interests in VIEs created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN 46R that were created

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before January 1, 2004, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. The Company currently does not have any VIEs in which it has variable interests.

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

With the exception of historical information (information relating to the Company's financial condition and results of operations at historical dates or for historical periods), the matters discussed in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking statements that necessarily are based on certain assumptions and are subject to certain risks and uncertainties. These forward-looking statements are based on management's expectations as of the date hereof, and the Company does not undertake any responsibility to update any of these statements in the future. Actual future performance and results could differ from that contained in or suggested by these forward-looking statements as a result of the factors set forth in this Management's Discussion and Analysis of Financial Condition and Results of Operations, 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 9 to the Consolidated Financial Statements.

The following is a summary of the changes to the components of the segments in the years ended June 30, 2004 and 2003:

	Real Estate Operation	Golf	Unallocated And Other	Total
YEAR ENDED JUNE 30, 2004	-----	-----	-----	-----
Revenues	\$3,928	(\$381,696)	(\$844,917)	(\$1,222,685)
Costs	2,500	(71,659)	--	(69,159)
SG&A-direct	--	(48,154)	355,169	307,015
SG&A-allocated	--	544,000	(419,000)	125,000
Depreciation and amortization	(8,611)	1,927	11,785	5,101
Impairment losses	--	--	1,376,316	1,376,316
Interest expense	(5,436)	--	(49,422)	(54,858)
Equity in investees	(26,204,886)	--	--	(26,204,886)
Gain (loss) on disposition	--	--	110,241	110,241
Segment profit (loss)	(26,189,411)	(807,810)	(2,009,524)	(29,006,745)
Investment income				(7,463)
Income tax expense				7,122,000
Income (loss) from continuing operations				(21,892,208)
Discontinued operations				336,571
Change in accounting principle				(37,675)
Net income (loss)				(21,593,312)
YEAR ENDED JUNE 30, 2003	-----	-----	-----	-----
Revenues	(\$111,277)	\$449,453	\$410,074	\$748,250
Costs	(114,058)	225,262	--	111,204
SG&A-direct	--	(95,386)	118,405	23,019

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SG&A-allocated	--	113,000	(120,535)	(7,535)
Depreciation and amortization	(45,283)	(2,526)	(28,291)	(76,100)
Impairment losses	(44,915)	--	--	(44,915)
Interest expense	450	--	(27,473)	(27,023)
Equity in investees	26,341,632	--	--	26,341,632
Gain (loss) on disposition	--	--	--	--
Segment profit (loss)	26,434,161	209,103	467,968	27,111,232
Investment income				11,869
Income tax expense				(5,838,000)
Income (loss) from continuing operations				21,285,101
Discontinued operations				15,363
Change in accounting principle				37,675
Net income (loss)				21,338,139

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RENTAL OPERATIONS

This segment includes the operations of a subleasehold interest in land underlying a condominium project (Sublease) which was sold in March 2002, and other activities which include the equity in income of the operation of a 542 unit apartment complex, which was sold April 1, 2003, and the sublease of a portion of the Penley factory.

The following is a summary of the changes in rental operations segment for each of the years ended June 30, 2004 and 2003 compared to the prior year:

	Sublease	Other	Combined
	-----	-----	-----
JUNE 30, 2004			
Revenues	\$ --	\$ 3,928	\$ 3,928
Costs	--	2,500	2,500
Depreciation and amortization	--	(8,611)	(8,611)
Impairment losses	--	--	--
Interest expense	(5,436)	--	(5,436)
Equity in investees	--	(26,204,886)	(26,204,886)
Segment profit (loss)	5,436	(26,194,847)	(26,189,411)
JUNE 30, 2003			
Revenues	(\$119,098)	\$ 7,821	(\$111,277)
Costs	(116,458)	2,400	(114,058)
Depreciation and amortization	(474)	(44,809)	(45,283)
Impairment losses	(44,915)	--	(44,915)
Interest expense	450	--	450
Equity in investees	--	26,341,632	26,341,632
Segment profit (loss)	42,299	26,391,862	26,434,161

The changes to the sublease component relate to the sale of the subleasehold interest in March 2002.

On April 1, 2003, UCV, in which the Company had a 50 percent ownership interest, sold its 542 unit apartment project for \$58,400,000 in cash. After deducting current selling expenses (\$2,442,207), paying mortgage loans (\$38,000,000), and the refund of lender impounds (\$1,340,348), the net sale proceeds to UCV was \$19,298,141 and UCV's gain from sale was approximately \$52,558,000. The Company's equity in this gain was approximately \$26,279,000. The \$44,809 decrease in depreciation and amortization in 2003 relates to the cessation of amortization of the step up in basis as a result of the sale of the underlying asset of UCV. Effective April 1, 2003, UCV changed its fiscal year end from March 31 to June 30 to conform to the fiscal year end of the Company. This was treated as a change in accounting principle by the Company and the Company's

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\$37,675 of equity in the net income of UCV for the three month period ended June 30, 2002 was classified as the cumulative effect of a change in accounting principle.

GOLF CLUB SHAFT MANUFACTURING:

The following is a breakdown of the percentage of sales by customer category:

	2004	2003	2002
	----	----	----
Golf equipment distributors	46%	38%	35%
Small golf club manufacturers	29%	32%	26%
Golf shops	21%	24%	33%
Other	4%	6%	6%

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, sales to other golf equipment distributors and 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. Prior to the year ended June 30, 2004, golf club shafts sales increased by approximately \$1,062,000 in 2002 and \$449,000 in 2003. In 2004 golf club shaft sales decreased by \$382,000. Some of the decrease in 2004 is attributable to declines in sales to golf club manufacturers. There were several large golf club manufacturers that placed orders in 2003 that did not place additional orders in 2004. Sales to golf shops also decreased in 2004 and sales to distributors did not increase significantly. Management believes the decreases are likely attributable to both a decrease in advertising in 2004 and speculation about the uncertainty of the Company's plans for the golf club shaft manufacturing operation.

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Operating expenses of the golf segment consisted of the following in 2004, 2003, and 2002:

	2004	2003	2002
	-----	-----	-----
Costs of sales and manufacturing overhead	\$2,487,000	\$2,632,000	\$2,385,000
Research and development	271,000	198,000	219,000
	-----	-----	-----
Total golf costs	\$2,758,000	\$2,830,000	\$2,604,000
	=====	=====	=====
Marketing and promotion	\$1,008,000	\$ 970,000	\$1,179,000
Administrative costs- direct	239,000	325,000	212,000
	-----	-----	-----
Total SG&A-direct	\$1,247,000	\$1,295,000	\$1,391,000
	=====	=====	=====

Total golf costs decreased in 2004 primarily due to the decrease in direct costs of goods sold related to the decrease in sales in 2004. Total golf costs increased in 2003 primarily due to the increase in direct cost of goods sold related to the increase in sales in 2003. Golf costs also increased in 2003 related to a \$113,000 increase in the valuation allowance expense related to inventory.

In general the Company has not been able to reduce golf costs to a level commensurate with the Company's level of sales. The manufacturing plant was designed and equipped to produce large production runs of the same product. However, the Company has not been able to develop sufficient sales to large golf shaft manufacturers or increase aftermarket sales sufficiently to make large

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production runs. Therefore the units costs to manufacture shafts has been higher than planned. Additionally, the Company had substantial problems in 2004 with the quality of the material provided by one of its suppliers that caused significant additional expense to yield shafts for finished goods.

Marketing and promotion expense decreased in 2003 primarily due to decreases in advertising and the tour program expenses. Administrative costs decreased in 2004 and 2003 primarily due to a decrease of \$163,000 in 2004 in the allowance for bad debts. This was partially offset by a \$68,000 increase in professional fees related to marketing consultants. Administrative costs increased in 2003 primarily due to a \$103,000 increase in the allowance for bad debts related to two small golf club manufacturers that discontinued business.

Allocated Selling, General and Administrative costs increased in 2004 to reflect the circumstance that a higher percentage of the corporate segments time is being spent providing services to the golf club shaft segment.

UNALLOCATED AND OTHER:

Other revenues-related party decreased due to sale by UCV of its apartment property on April 1, 2003. The Company had received management fees (\$110,000), one time sales commission (\$350,000), and development fees (\$264,000) from UCV totaling \$724,000 in 2003. In 2004 the Company only received management fees from UCV for the management of the properties acquired in August 2003 and September 2003 totaling \$47,000.

Other revenues, which primarily consisted of management fees and commissions earned from a third party, decreased \$139,000 in 2004 due to the sale of the property being managed in October 2002 for which the Company had also received a one time real estate commission of \$100,000.

Unallocated and Other SG&A increased by \$355,000 in 2004 and \$118,000 in 2003. The increase in 2004 was primarily due to \$373,000 of compensation related to Company shares issued Harold Elkan and Andrew Bradley, Inc. in recognition of the value of personal guarantees Harold Elkan provided to lenders on behalf of the Company and its subsidiaries over the years. The increase in 2003 was primarily due to an increase in wages related to a \$100,000 bonus to Harold Elkan.

In June 2004, the Company recorded a \$1,376,316 impairment loss related to the foreclosure on the note receivable from Andrew Bradley, Inc. See Note 3b of Notes to the Consolidated Financial Statements.

Interest expense decreased in 2002 due to the decrease in the balance of short term borrowings in 2003. All short term debt was paid in April 2003.

INCOME TAXES:

Income tax expense increased in 2003 due to the income recognized from UCV's sale of its apartment project. As discussed above, UCV utilized the "like-kind-exchange" rules to defer recognition of a portion of the taxable income from the sale to the extent it reinvested the proceeds from sale into like-kind property. Since UCV used some of the sales proceeds to fund distributions to Company, the Company had a taxable gain from the sale that was recognized in the year ended June 30, 2004 of approximately \$13,295,000 and recognition of approximately \$12,948,000 of gain will be indefinitely deferred. The taxable portion of this gain recognized in 2004 for federal income tax purposes was offset by its federal net operating loss carryforwards, except for approximately \$181,000 due for the alternative minimum tax. Since the State of

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California has temporarily suspended the utilization of net operating losses for state income tax purposes, the Company has a state income tax liability for the year ended June 30, 2004 related to the gain from sale of UCV of approximately \$798,000.

DISCONTINUED OPERATIONS:

As discussed in Footnote 10 of Notes to the Consolidated Financial Statements, the Company has classified its operations in the bowling and real estate development segments as discontinued operations.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS:

The following table summarizes the Company's contractual obligations and other commitments at June 30, 2004 and the effect such obligations could have on the Company's liquidity and cash flow in future periods:

	Less than one year	2-3 Years	4-5 Years	Over 5 years	Total
Notes payable	\$18,071	\$38,688	\$28,544	\$ --	\$85,303
Lease commitments	247,000	494,000	494,000	183,000	1,418,000
Guaranty	75,000	156,000	166,000	198,000	595,000
	\$340,071	\$688,688	\$688,544	\$381,000	\$2,098,303

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk primarily due to fluctuations in interest rates. The Company and its unconsolidated subsidiary, UCV, 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 debt for the fiscal years ended June 30:

	2005	2006	2007	2008	2009	Total	Fair Value
							(1)
Fixed rate debt	\$18,000	\$19,000	\$20,000	\$21,000	\$8,000	\$86,000	\$86,000
Weighted average interest rate	4.6%	4.6%	4.6%	4.9%	4.9%	4.6%	4.6%

The following table presents scheduled principal payments and related weighted average interest rates of the UCV's long-term fixed rate and variable rate debt for the fiscal years ended June 30:

	2005	2006	2007	2008	2009	Thereafter	Total	F
Fixed rate debt	\$282,000	\$300,000	\$596,000	\$336,000	\$2,723,000	\$18,493,000	\$22,730,000	\$2
Weighted average interest rate	4.6%	4.6%	4.6%	6.1%	6.0%	6.0%	6.1%	
Variable Rate Debt	\$188,000	\$199,000	\$211,000	\$223,000	\$238,000	\$5,487,000	\$6,546,000	\$
Weighted average interest rate	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	5.8%	

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

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

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 15 of this report.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On June 29, 2004 the Company changed its accountants from KPMG LLP to Peterson & Co., LLP. The change in independent accountants was recommended and approved by the Company's Audit Committee. During the Company's fiscal years ended June 30, 2003 and June 30, 2002, and the subsequent interim periods through June 29, 2004, there were no disagreements with KPMG LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG LLP, would have caused KPMG LLP to make reference thereto in their report on the financial statements for such years. See the Company's Current Report filed on form 8K dated June 29, 2004 and filed with the Securities and Exchange Commission on July 6, 2004.

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ITEM 9A. Controls and Procedures

- (a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that such disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company required to be included in the Company's periodic filings under the Exchange Act.
- (b) Changes in Internal Control. There have been no significant changes in internal controls or in factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

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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, 2004. 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.

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Directors & Officers	Age	Position and Tenure with Company
Harold S. Elkan	61	President, Chief Executive Officer and Director since November 7, 1983
Steven R. Whitman	51	Chief Financial Officer and Treasurer since May 1987; Director and Assistant Secretary since August 1, 1989; Secretary since January 1995
Patrick D. Reiley	63	Director since August 21, 1986, sole member of audit committee
James E. Crowley	57	Director since January 10, 1989, resigned November 11, 2003
Gordon L. Gerson	53	Director since June 3, 2003, resigned November 11, 2003

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-Kia, North County Hyundai, Valley Toyota, TAG Collision Repair, and Lake Elsinore Ford.

5. Gordon L. Gerson has been an attorney with The Gerson Law Firm, APC in San Diego, California for over the past five years specializing in real estate transactions and financings and creditors rights litigation.

(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

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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.

To the Company's knowledge, based solely on written representations that no other reports were required, during the three fiscal years ended June 30, 2002 through 2004, all Section 16(a) filing requirements applicable to officers, directors and greater than ten-percent beneficial owners were complied with.

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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, 2004 exceeded \$100,000.

Name and Principal Position	Year	Salary	Bonus	Other	Long-term Compen- sation	All Other Compen- sation
Harold S. Elkan, President	2004	\$350,000	--	\$ --	\$ --	\$322,997 (1)
	2003	350,000	\$100,000	--	--	--
	2002	350,000	--	--	--	--
Steven R. Whitman, Chief Financial Officer	2004	100,000	5,000	--	--	--
	2003	100,000	--	--	--	--
	2002	100,000	--	--	--	--

(1) The Other Compensation listed for Harold S. Elkan (Elkan) for 2003 relates to the value of 5,441,734 restricted shares of the Company's common stock issued Elkan as extra compensation in recognition of guarantees Elkan has provided to subsidiaries of SAI. See Item 13 Certain Relationships and Related Transactions.

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 has not 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 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 proposes 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, 2004) 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 had previously authorized

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that up to \$625,000 of loans can be made to Harold S. Elkan at interest rates not to exceed 10 percent. No loans have been made to Harold S. Elkan in over three years.

(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, 2004.

(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.

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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 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. A bonus of \$100,000 was awarded to Harold Elkan for the year ended June 30, 2003.

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 is 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.

Patrick D. Reiley, the Company's sole outside director, serves as a committee of one to approve compensation for Harold S. Elkan: Harold S. Elkan serves as a committee of one to approve the compensation of all other employees of the Company.

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 7415 Carroll Road San Diego, California	5,441,734	Ownership Sole investment and voting power	50.001%

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All directors and officer as a group	5,441,734	Sole investment and voting power	50.001%
---	-----------	-------------------------------------	---------

ITEM 13. Certain Relationships and Related Transactions

(a) - (c):

1. The Company has \$355,672 of unsecured loans outstanding to Harold S. Elkan, (President, Chief Executive Officer, Director and the majority shareholder of the Company) as of June 30, 2004 (\$360,653 as of June 30, 2003). These loans were made prior to June 1998 and were in conjunction with the overall compensation package approved by the compensation committee of the Company. The balance at June 30, 2004 bears interest at 8 percent per annum and is due in monthly installments of interest only. The balance is due on demand. The largest amount outstanding during the year was \$360,653 in July 2004.

Elkan's primary source of repayment of these loans 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 repayment of these 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 the balance of the loans remained below \$390,000. As of June 30, 2004 or 2003 there was no unrecorded accrued interest on the loans.

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 (Elkan), the Company's President. The loan was made to allow Elkan to maintain ownership of at least a majority of the outstanding stock of the Company. Failure by Elkan to maintain majority ownership at the time would have been deemed a change of control of the Company under certain credit agreements between the Company or its subsidiaries and third party creditors, thereby constituting an event of default thereunder allowing an acceleration of the payment obligations under those agreements. The loan was collateralized by 21,808,267 shares of the Company stock held by ABI and provided funds to ABI to pay its obligation related to its purchase of the Company's stock in November 1983. The loan to ABI provided for interest to accrue at an annual rate of prime plus 1-1/2 percentage points (5.25 percent at June 30, 2003) and to be added to the principal balance annually. The loan was due in November 2003.

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 \$1,172,566 as of June 30, 2004 (\$1,001,166 as of June 30, 2003). The balance of the loan, including accrued by unrecorded interest as of June 30, 2004 was \$3,464,058.

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On June 30, 2004 the Company, Elkan and ABI entered into a Debt Payment & Extra Compensation Agreement ("Debt Agreement"). Pursuant to the Debt Agreement:

1. The Company agreed to issue 1,360,433 shares of the Company common stock to ABI as extra compensation in recognition of guarantees provided to subsidiaries of the Company.
2. ABI agreed to the foreclosure by the Company of the 23,168,700 shares of Company common stock owned by ABI (including the additional shares of common stock awarded to ABI) valued at \$.03951 per share in partial satisfaction of the Company's note receivable from ABI.
3. The Company agreed to issue 5,441,734 restricted shares ("Extra

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Compensation Shares") of Company common stock to Elkan as extra compensation in recognition of guarantees he has provided to subsidiaries of the Company.

4. Elkan and the Company agreed to enter into a Stock Restriction Agreement.

The Debt Agreement was approved as fair to the Company and its shareholders by Director Patrick D. Reiley, the Company's sole independent director, acting as a Special Committee of one (the "Special Committee"). For such purposes Mr. Reiley was represented by independent counsel. The fairness to the Company of the Debt Agreement was based in part upon the valuation of Company common stock determined in a written report prepared for the Special Committee for such purpose by an independent investment banking firm. All other parties to the Debt Agreement were represented by their own respective counsel.

On September 2, 2004, the Company and Elkan entered into the Stock Restriction Agreement ("Agreement"), with an effective date of June 30, 2004. The Agreement applies to the 5,441,734 of shares of Company common stock ("Restricted Shares") issued to Elkan pursuant to the Debt Agreement and provides for, among other things:

- (1) Restrictions on Elkan's ability to transfer the Restricted Shares for five years;
- (2) Elkan's forfeiture to the Company of the Restricted Shares in certain circumstances, including if there occurs an event of default, if Elkan is terminated with cause, or if the net fair market value of the Company's assets shall have failed to increase by at least 2.5 percent per annum, compounded annually, over the period between the effective date of the Agreement and the 90th day prior to the fifth anniversary of such effective date;
- (3) the Company's right to purchase any or all of the Restricted Shares from Elkan at \$.05936 per share in limited circumstances; and
- (4) the grant of certain anti-dilution and registration rights to Elkan as set forth in the Agreement.

ITEM 14. Principal Accountants Fees and Services:

KPMG LLP, the Company's principal accounting firm until June 29, 2004, billed the Company for audit fees totaling \$136,581 and \$70,683 during the years ended June 30, 2004 and 2003, respectively. KPMG LLP did not perform any other services for the Company during those years.

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PART IV

ITEM 15. 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' Reports	17-18
Sports Arenas, Inc. and subsidiaries consolidated financial statements:	
Balance sheets as of June 30, 2004 and 2003	19
Statements of operations for each of the years in the three-year period ended June 30, 2004	20

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Statements of shareholders' equity (deficiency) for each of the years in the three-year period ended June 30, 2004	21
Statements of cash flows for each of the years in the three-year period ended June 30, 2004	22-23
Notes to consolidated financial statements	24-35
2. Financial Statements of Unconsolidated Subsidiaries	
UCV, L.P. (a California limited partnership)- 35 percent owned investee:	
Independent Auditors' Reports	36-37
Balance sheets as of June 30, 2004 and 2003	38
Statements of operations and partners' equity (deficit) for each of the years ended June 30, 2004, June 30, 2003, March 31, 2002 and the three-month period ended June 30, 2002	39
Statements of cash flows for each of the years ended June 30, 2004, June 30, 2003, March 31, 2002 and the three-month period ended June 30, 2002	40
Notes to consolidated financial statements	41-45
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	
Index to Exhibits.	47

B. Reports on Form 8-K:

No reports on Form 8-K were filed during the last quarter of the period covered by this report:

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
Sports Arenas, Inc.

We have audited the consolidated balance sheet of Sports Arenas, Inc. and its subsidiaries ("the Company) as of June 30, 2004, and the related consolidated

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statements of operations, shareholders' equity (deficiency), and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of Sports Arenas, Inc. and its subsidiaries as of June 30, 2003, were audited by other auditors whose report dated September 5, 2003, expressed an unqualified opinion with a going concern explanatory paragraph on those statements.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2004 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sports Arenas, Inc. and its subsidiaries as of June 30, 2004, and the results of its operations and its cash flows for the year then ended 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 11 to the consolidated financial statements, the Company has suffered recurring losses, 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 11. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Peterson & Co., LLP
PETERSON & CO., LLP
November 15, 2004

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Sports Arenas, Inc.:

We have audited the accompanying consolidated balance sheet of Sports Arenas, Inc. and subsidiaries (the "Company") as of June 30, 2003, and the related consolidated statements of operations, shareholders' equity (deficiency) and cash flows for each of the years in the two-year period ended June 30, 2003. 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.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, 2003, and the results of their operations and their cash flows for each of the years in the two-year period ended June 30, 2003, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4(b) to the consolidated financial statements, effective April 1, 2003, the Company changed its method of accounting for its equity investment in UCV, L.P.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 11 to the consolidated financial statements, the Company has suffered recurring losses, 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 11. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/S/KPMG LLP
 KPMG LLP
 San Diego, California
 September 5, 2003

SPORTS ARENAS, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS-JUNE 30, 2004 AND 2003

	2004	2003
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 186,716	\$ 365,674
Other receivable-affiliate (Note 4b)	--	350,000
Trade receivables, net of allowance for doubtful		

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accounts of \$45,000 and \$228,000 respectively .	275,004	402,875
Inventories (Note 2)	605,843	641,127
Prepaid expenses	27,005	34,958
	-----	-----
Total current assets	1,094,568	1,794,634
	-----	-----
Property and equipment, at cost:		
Machinery and equipment	1,600,609	1,492,404
Leasehold improvements	396,991	396,991
	-----	-----
	1,997,600	1,889,395
Less accumulated depreciation and amortization	(1,167,688)	(1,052,740)
	-----	-----
Net property and equipment	829,912	836,655
	-----	-----
Other assets:		
Deferred tax assets (Note 7)	1,330,000	4,661,000
Investments (Note 4)	3,797,288	5,344,007
Other	77,371	95,671
	-----	-----
	5,204,659	10,100,678
	-----	-----
	\$ 7,129,139	\$ 12,731,967
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 5a)	\$ 18,071	\$ 5,771
Accounts payable	241,540	441,434
Accrued payroll and related expenses	278,286	282,080
Accrued income taxes	979,000	--
Other liabilities	--	3,796
	-----	-----
Total current liabilities	1,516,897	733,081
	-----	-----
Long-term debt, excluding current portion (Note 5a)	67,232	--
	-----	-----
Deferred tax liabilities (Note 7)	5,158,000	10,514,000
	-----	-----
Minority interest in consolidated subsidiary (Note 10b)	15,000	431,839
	-----	-----
Shareholders' equity:		
Common stock, \$.01 par value, 50,000,000 shares authorized, issued and outstanding: 10,883,467 in 2004 and 27,250,000 in 2003	340,521	272,500
Additional paid-in capital	2,038,776	1,730,049
Treasury stock	(915,176)	--
Accumulated earnings (deficit)	(1,092,111)	1,341,990
	-----	-----
	372,010	3,344,539
Less note receivable from shareholder (Note 3b) .	--	(2,291,492)
	-----	-----
Total shareholders' equity	372,010	1,053,047
	-----	-----

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Commitments and contingencies (Notes 6 and 8)

\$ 7,129,139 \$ 12,731,967
 =====

See accompanying notes to consolidated financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF OPERATIONS
 YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	2004	2003
	-----	-----
Revenues:		
Golf	\$ 2,657,050	\$ 3,038,746
Rental	82,885	78,957
Other	33,507	201,618
Other-related party (Note 4b)	47,423	724,229
	-----	-----
	2,820,865	4,043,550
Costs and expenses:		
Golf	2,758,039	2,829,698
Rental	77,900	75,400
Selling, general, and administrative	2,704,417	2,272,402
Depreciation and amortization	200,324	195,223
Provision for impairment losses (Note 3b)	1,376,316	--
	-----	-----
	7,116,996	5,372,723
	-----	-----
Loss from operations	(4,296,131)	(1,329,173)
Other income (charges):		
Investment income:		
Related party (Notes 3a and 3b)	33,804	40,251
Other	299	1,315
Interest expense and amortization of finance costs	(2,798)	(57,656)
Equity in income (loss) of investee (Note 4a)	76,958	26,281,844
Gain on sale (Note 4c)	110,241	--
	-----	-----
	218,504	26,265,754
	-----	-----
Income (loss) from continuing operations		
before income taxes	(4,077,627)	24,936,581
Income tax benefit (expense)	1,284,000	(5,838,000)
	-----	-----
Income (loss) from continuing operations	(2,793,627)	19,098,581
Income from discontinued operations net of income		
tax of \$238,000 in 2004 and \$15,000 in 2003 (Note 10) .	359,526	22,955
Cumulative effect of change in accounting principle (Note 4b)	--	37,675

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Net income (loss)	(\$ 2,434,101)	\$ 19,159,211	(
	=====	=====	
Per common share (based on weighted average shares outstanding:			
Income (loss) from continuing operations	(\$ 0.10)	\$ 0.70	
Discontinued operations	0.01	--	
Cumulative effect of change in accounting principle	--	--	
	-----	-----	
Net income (loss)	(\$ 0.09)	\$ 0.70	
	=====	=====	
Weighted average number of shares outstanding	27,250,000	27,250,000	
	=====	=====	

See accompanying notes to consolidated financial statements.

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)
YEARS ENDED JUNE 30, 2004, 2003 AND 2002

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings (Deficit)	Note Receivab from Sharehol
	Number of Shares	Amount				
Balance at June 30, 2001	27,250,000	\$272,500	\$1,730,049	\$ --	(\$15,638,293)	(\$2,291,
Net loss	--	--	--	--	(2,178,928)	
Balance at June 30, 2002	27,250,000	272,500	1,730,049	--	(17,817,221)	(2,291,
Net income	--	--	--	--	19,159,211	
Balance at June 30, 2003	27,250,000	272,500	1,730,049	--	1,341,990	(2,291,
Foreclosure on stock (Note 3b)	(23,168,700)	--	--	(915,176)	--	2,291,
Issue of shares (Note 3b)	6,802,167	68,021	308,727	--	--	
Net loss	--	--	--	--	(2,434,101)	
Balance at June 30, 2004	10,883,467	\$340,521	\$2,038,776	(\$915,176)	(\$1,092,111)	\$ --
	=====	=====	=====	=====	=====	=====

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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, 2004, 2003 AND 2002

	2004	2003	2002
	-----	-----	-----
Cash flows from operating activities:			
Net income (loss)	(\$2,434,101)	\$ 19,159,211	(\$2,100,000)
Less income from discontinued operations	(359,526)	(22,955)	(1,000,000)
	-----	-----	-----
Income (loss) from continuing operations	(2,793,627)	19,136,256	(2,100,000)
Adjustments to reconcile net income (loss) to cash used by operating activities:			
Depreciation and amortization	200,324	195,223	200,000
Equity in income (loss) of investee	(76,958)	(26,319,519)	(2,000,000)
Deferred income	--	(192,000)	(1,000,000)
Provision for impairment losses	1,376,316	--	(1,000,000)
Gain on sale of assets	(110,241)	--	(1,000,000)
Stock compensation expense	376,748	--	(1,000,000)
Deferred taxes	(2,263,000)	5,838,000	(1,000,000)
Changes in assets and liabilities:			
(Increase) decrease in receivables	463,775	(294,242)	(1,000,000)
(Increase) decrease in inventories	35,284	151,563	(2,000,000)
(Increase) decrease in prepaid expenses	7,953	20,112	(1,000,000)
Increase (decrease) in accounts payable	(45,515)	(456,755)	2,000,000
Increase (decrease) in accrued expenses and other liabilities	987,746	14,744	(1,000,000)
Other	18,300	37,612	(1,000,000)
	-----	-----	-----
Net cash used by continuing operations	(1,822,895)	(1,869,006)	(1,700,000)
Net cash provided (used) by discontinued operations	9,059	(320,402)	(1,000,000)
	-----	-----	-----
Net cash used by operating activities	(1,813,836)	(2,189,408)	(1,700,000)
	-----	-----	-----
Cash flows from investing activities:			
Additions to property and equipment	(193,581)	(17,850)	(1,000,000)
Proceeds from sale of miscellaneous assets	110,241	19,465	(1,000,000)
Distributions to holders of minority interest	(73,000)	(370,838)	(1,000,000)
Distributions received from investees	1,711,686	3,618,276	2,100,000
	-----	-----	-----
Net cash provided by investing activities	1,555,346	3,249,053	2,100,000
	-----	-----	-----

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Cash flows from financing activities:			
Scheduled principal payments	(16,946)	(7,685)	(
Proceeds from short-term borrowings	--	75,000	4
Payments on short-term borrowings	--	(800,631)	(1,2
Proceeds from long-term debt	96,478	--	
	-----	-----	-----
Net cash provided (used) by financing activities	79,532	(733,316)	(8
	-----	-----	-----
Net increase (decrease) in cash and equivalents	(178,958)	326,329	(4
Cash and cash equivalents, beginning of year	365,674	39,345	5
	-----	-----	-----
Cash and cash equivalents, end of year	\$ 186,716	\$ 365,674	\$
	=====	=====	=====

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SPORTS ARENAS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2004, 2003, AND 2002

SUPPLEMENTAL CASH FLOW INFORMATION:

	2004	2003	2002
	-----	-----	-----
Interest paid	\$ 8,000	\$ 54,000	\$ 11,000
	=====	=====	=====

Supplemental schedule of non-cash investing and financing activities:

During the year ended June 30, 2004, the Company issued stock compensation totaling \$376,748, which increased common stock by \$68,021 and increased additional paid in capital by \$308,727.

During the year ended June 30, 2004 the Company foreclosed on the 23,168,700 shares of the Company's stock held by Andrew Bradley, Inc. (ABI) as collateral for ABI's note payable to the Company. The balance of the note was \$3,464,058 with a related allowance for impairment loss of \$2,548,882. The Company shares, which are being held as treasury stock, were valued at \$915,176.

During the year ended June 30, 2003, the Company closed its bowling center operations and sold the machinery and equipment for \$19,465. The cost and accumulated depreciation of the assets sold were \$473,861 and \$471,112, respectively.

During the year ended June 30, 2003, the Company reclassified \$280,631 of principal payments on short-term debt to accrued interest.

During the year ended June 30, 2002 the Company assigned its interests in the leasehold and the related subleasehold interests for a note receivable of \$37,500. The note receivable was assigned to the master lessor in satisfaction of a portion of the rent due. There was \$75,615 of unamortized deferred lease costs for which an impairment loss of \$44,915 had been recorded in the year ended June 30, 2002.

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, 2004, 2003 AND 2002

1. Summary of significant accounting policies and practices:

Description of business- The Company, primarily through its subsidiaries, owns and operates a graphite golf club shaft manufacturer and three commercial real estate properties (35% owned). 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, 2004 and 2003.

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

Property and equipment - Property and equipment are stated at cost. Depreciation and amortization are provided on the straight-line method

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based on the estimated useful lives of the related assets, which are from 3 to 15 years.

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 was being amortized over the remaining useful lives of the buildings and the amortization was included in the Company's depreciation and amortization expense until the property was sold April 1, 2003.

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 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 - The Company adopted Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement No. 144), on July 1, 2002. Statement No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement requires that long-lived assets 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 expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of an asset exceeds the fair value of the asset. Statement No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. Prior to the adoption of Statement No. 144, the Company followed the guidance of Statement No. 121.

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

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 and cash equivalents, other receivables-affiliate, trade receivables, accounts payable, and notes payable-short term - the

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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.

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 U.S. generally accepted accounting principles. Actual results could differ from these estimates.

Income (loss) per share- Basic earnings per share is computed by dividing income (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 the years ended June 30, 2004, June 30, 2003 and June 30, 2002.

2. Inventories:

Inventories consist of the following:

	2004	2003
	-----	-----
Raw materials	\$ 133,102	\$ 126,766
Work in process	403,770	561,161
Finished goods	384,971	186,200
	-----	-----
	921,843	874,127
Less valuation allowance	(316,000)	(233,000)
	-----	-----
	\$ 605,843	\$ 641,127
	=====	=====

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 \$33,804, \$40,251, and \$27,890 in 2004, 2003, and 2002, respectively. The loans bear interest at 8 percent per annum and are due on demand.

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 collectibility of the unsecured loans. This charge was included in selling, general and administrative expense. As

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a result of the balance of the unsecured loans decreasing below \$390,000 as of June 30, 2004 and June 30, 2003, \$4,981 and \$29,347 of the valuation allowance were recovered in the years ended June 30, 2004 and 2003, respectively.

The Company also discontinued recording the interest income on the loans except to the extent that the balance of the loans remained below \$390,000. As of June 30, 2004 and 2003 no interest accrued on the loans was unrecorded.

	2004	2003
	-----	-----
Balance of note receivable	\$ 355,672	\$ 360,653
Less valuation allowance .	(355,672)	(360,653)
	-----	-----
	\$ --	\$ --
	=====	=====

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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 provided for interest to accrue at an annual rate of prime plus 1-1/2 percentage points and to be added to the principal balance annually. The loan was due in November 2003. The loan was collateralized by 21,808,267 shares of the Company's stock. The original loan amount plus accrued interest of \$1,230,483 was presented as a reduction of shareholders' equity as of June 30, 2003 because ABI's only asset is the stock of the Company.

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 \$1,172,566 as of June 30, 2004 (\$1,001,166 as of June 30, 2003).

On June 30, 2004 the Company, Harold S. Elkan ("Elkan") and ABI entered into a Debt Payment & Extra Compensation Agreement ("Agreement") whereby:

1. The Company agreed to issue 1,360,433 shares of Company common stock to ABI as extra compensation in recognition of guarantees provided to subsidiaries of SAI.
2. ABI agreed to the foreclosure and sale to the Company of the 23,168,700 shares of Company common stock owned by ABI (including the additional shares of common stock awarded to ABI) valued at \$.03951 per share in partial satisfaction of the Company's note receivable from ABI.
3. The Company agreed to issue 5,441,734 restricted shares ("Extra Compensation Shares") of Company common stock to Elkan as extra compensation in recognition of guarantees Elkan has provided to subsidiaries of the Company.
4. Elkan and the Company were to negotiate and enter into a Stock Restriction Agreement.

On September 2, 2004, the Company and Elkan entered into the Stock Restriction Agreement ("Agreement"), with an effective date of June 30, 2004. The Agreement applies to the 5,441,734 of shares of Company

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common stock ("Restricted Shares") issued to Elkan pursuant to the Debt Payment and Compensation Agreement and provides for, among other things:

- (a) Restrictions on Elkan's ability to transfer the Restricted Shares for five years;
- (b) Elkan's forfeiture to the Company of the Restricted Shares in certain circumstances, including if there occurs an event of default, if Elkan is terminated with cause, or if the net fair market value of the Company's assets shall have failed to increase by at least 2.5 percent per annum, compounded annually, over the period between the effective date of the Agreement and the 90th day prior to the fifth anniversary of such effective date;
- (c) The Company's right to purchase any or all of the Restricted Shares from Elkan at \$.05936 per share in limited circumstances; and
- (d) the grant of certain anti-dilution and registration rights to Elkan as set forth in the Agreement.

4. Investments:

- (a) Investments consist of the following:

	2004	2003
	-----	-----
Accounted for on the equity method:		
Investment in UCV, L.P.	\$ 3,797,288	\$ 5,277,007
Vail Ranch Limited Partnership (See Note 10b)	--	67,000
	-----	-----
	3,797,288	5,344,007
	-----	-----
Accounted for on the cost basis:		
All Seasons Inns, La Paz	--	37,926
Less provision for impairment loss	--	(37,926)
	-----	-----
Total investments	\$ 3,797,288	\$ 5,344,007
	=====	=====

The following is a summary of the equity in income (loss) from UCV:

	2004	2003	2002
	-----	-----	-----
UCV, L.P.	\$76,958	\$26,281,844	\$ (59,788)

The equity in income (loss) from VRLP (see Note 10b) is included in the income from discontinued operations.

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

The Company was a one percent managing general partner and 49 percent limited partner in UCV, L.P. (UCV) which owned University City Village, a 542 unit apartment project in San Diego, California until it was sold April 1, 2003. As a result of the \$3,769,000 of distributions the Company received related to the sale, the Company's beneficial ownership in UCV was reduced from 50 percent to 35 percent.

Effective April 1, 2003, the Company began recording its equity in the income (loss) of UCV on a current basis rather than on a 91 day delayed basis. The Company has treated this as a change in its accounting principle and accordingly has classified its \$37,675 of equity in the net income of UCV for the period of April 1, 2002

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through June 30, 2002 as the cumulative effect of a change in accounting principle in 2003.

On April 1, 2003, UCV sold the University City Village Apartments for \$58,400,000 in cash. After deducting current selling expenses (\$2,495,820), paying mortgage loans (\$38,000,000), and the refund of lender impounds (\$1,340,348), the net sale proceeds to UCV was approximately \$19,298,141 and UCV's gain from sale was approximately \$52,558,000. As of June 30, 2004, UCV distributed a cumulative amount of approximately \$3,769,000 of such proceeds to the Company in partial liquidation of its partnership interest in UCV. Of this total, UCV distributed \$2,500,000 to the Company in the year ended June 30, 2003 and \$1,269,000 in the year ended June 30, 2004. The remaining funds were reinvested by UCV in "like-kind" property to defer a portion of the income tax consequences of the sale. As part of the sales transaction, the Company earned a \$350,000 sales commission that was included in UCV's selling expenses.

The following is summarized financial information of UCV's balance sheets as of June 30, 2004 and 2003:

	2004	2003
	-----	-----
Total assets	\$44,431,000	\$15,617,000
Total liabilities	30,423,000	406,000

The following is summarized financial information of UCV's results of operations:

	Year Ended June 30, 2004	Year Ended June 30, 2003	Three Months Ended June 30, 2002	Year Ended March 31, 2002
	-----	-----	-----	-----
Revenues	\$3,611,000	\$ --	\$ --	\$ --
Operating and general and administrative costs	1,082,000	--	--	--
Depreciation	868,000	--	--	--
Interest and amortization of loan costs	1,442,000	--	--	--
Income (loss) before discontinued operations	219,000	--	--	--
Income (loss) from discontinued operations	--	52,564,000	76,000	(119,000)
Net income (loss)	219,000	52,564,000	76,000	(119,000)

The loan agreement for one of the properties owned by UCV provides a loan covenant that requires the Company to maintain a minimum net worth of \$1,000,000. As of June 30, 2004, the Company does not meet this requirement. UCV is in the process of requesting a waiver from the lender regarding this covenant.

The Company performs property management services for UCV and its subsidiaries. The Company recognized management fee income of \$47,423, \$110,229, and \$138,371 in the twelve-month periods ended June 30, 2004, 2003, and 2002, respectively. In addition, pursuant to a development fee agreement with UCV dated July 1, 1998, the Company received development fees totaling \$72,000 in the year ended June 30, 2003 and \$96,000 in the year ended June 30, 2002. The Company had been deferring one half of fees it was receiving from UCV pursuant to a

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development services agreement. The balance of deferred income at March 31, 2003 (\$228,000) was recognized as revenue on April 1, 2003 upon the sale of the property. The Company believes that the terms of these agreements were no less favorable to the Company or UCV than could be obtained with an independent third party.

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A reconciliation of the investment (distributions received in excess of basis) in UCV as of June 30 is as follows:

	2004	2003
	-----	-----
Balance, beginning	\$ 5,277,007	\$ (18,008,401)
Equity in income	76,958	26,319,519
Cash distributions	(1,556,677)	(3,025,500)
Amortization of purchase price in excess of equity in net assets	--	(8,611)
	-----	-----
Balance, ending	\$ 3,797,288	\$ 5,277,007
	=====	=====

(c) Other investment:

The Company owned a 6 percent limited partnership interest in two partnerships that owned and operated a 109-room hotel (the Hotel) in La Paz, Mexico (All Seasons Inns, La Paz). The cost basis of this investment (\$162,629) had 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 had not recorded the sale of its investment at that time. The cash payments of \$27,074 received through June 30, 1997 (representing accrued interest through December 1996) were applied to reduce the cost of the investment. During the year ended June 30, 2004, the Company accepted \$92,240 as payment in full of the note receivable and recorded a gain from the settlement of \$92,240.

5. Long-term and short-term debt:

- (a) Long term debt as of June 30, 2004 consisted of two notes payable totaling \$85,303 that are collateralized by automobiles with a cost of \$113,654. The notes provide for monthly payments of \$1,802 including principal and interest (average annual interest rate of 4.6%). The notes are due in July and December of 2008. The principal payments due on notes payable during the next five fiscal years are as follows: \$18,071 in 2005, \$18,904 in 2006, \$19,784 in 2007, \$20,698 in 2008 and \$7,846 in 2009.
- (b) The Company borrowed a total of \$2,700,000 (\$150,000 in 2002, \$1,200,000 in 2001 and \$1,350,000 in 2000) from the Company's partner in UCV (Lender) of which \$725,631 (including \$280,631 reclassified from accrued interest in 2003), \$955,000 and \$1,300,000 was paid in 2003, 2002 and 2001, respectively. The loans were unsecured, due on

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demand and bore interest monthly at a base rate plus 1 percent . The Company admitted 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 also provided the Lender with an ownership interest in Penley Sports that would provide the Lender with a 10 percent interest in profits and distributions. Although the terms of these loans are likely to be comparable to the loan terms from an independent third party, it is unlikely that the Company could obtain a similar loan from an independent third party.

- (c) On February 27, 2003 the Company borrowed \$75,000 from its partner in OVP, LP. The loan was unsecured, due on demand and bore interest at the rate of 10 percent. The loan plus accrued interest of \$884 was paid on April 11, 2003. Although the terms of this loan are likely to be comparable to the loan terms from an independent third party, it is unlikely that the Company could obtain a similar loan from an independent third party.
- (d) On January 11, 2002, the Company borrowed \$300,000 from Harold S. Elkan, the Company's President and, indirectly, the Company's majority shareholder, pursuant to a short term loan agreement that was paid on March 27, 2002. During the term of the loan \$8,200 of interest (10% per annum) was paid to Elkan. Although the terms of this note are likely to be comparable to the loan terms from an independent third party, it is unlikely that the Company could obtain a similar loan from an independent third party.

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6. Commitments and contingencies:

- (a) The Company 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: \$247,000 in each of the years 2005 through 2009 and \$183,000 in 2010. 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. Rental expense for the manufacturing facilities was \$241,128 in 2004, \$234,105 in 2003, and \$227,288 in 2002.

The Company has subleased a portion of the golf club shaft manufacturing plant to different tenants since November 1, 2001. The current sublease commenced November 1, 2002 and continues through October 31, 2004. Rental income from subleases was \$82,885 in 2004, \$78,957 in 2003, and \$71,136 in 2002. These amounts are presented as rental revenues.

The Company was conditionally released by a lender from its remaining lease obligation for space it occupied in a building sold by the Company in December 2000. 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

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agreement are as follows for the years ending June 30: \$75,000- 2005; \$77,000- 2006; \$79,000 in 2007, \$82,000 in 2008, \$84,000 in 2009, \$198,000 thereafter and \$595,000 in the aggregate.

- (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 the time of termination plus \$50,000. As of June 30, 2004, his annual salary was \$350,000.
- (c) A lawsuit was filed on January 10, 2003 in the United States District Court in the Southern District of California by Masterson Marketing, Inc. (Masterson) against Penley Sports, LLC. Masterson's lawsuit originally asserted claims for copyright infringement, breach of contract, breach of fiduciary duty, and sought compensatory damages, punitive damages, statutory damages, and attorney fees. The Company filed a motion to dismiss all claims. In response to that motion, Masterson dropped all claims except for the claims of copyright infringement and breach of contract. Masterson also dropped all prayers for punitive damages, statutory damages, and attorney fees. It is not possible at this time to predict the outcome of this litigation. We intend to vigorously defend against these claims.
- (d) The Company is involved in other various routine litigation and disputes incident to its business. In management's opinion, based in part on the advice of legal counsel, none of these matters, other than as described in Note 6(c) will have a material adverse affect on the Company's financial position.

7. Income taxes

At June 30, 2004, the Company had net operating loss carry-forwards of \$3,913,000 for federal income tax purposes and \$5,475,000 for California state income tax purposes. The federal carryforwards expire from years 2020 to 2022. The state carryforwards expire from 2005 to 2013. Deferred tax assets are primarily related to these net operating loss carryforwards and certain other temporary differences.

In accordance with SFAS No. 109, the Company records a valuation allowance against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has recorded a valuation allowance primarily for impairment losses and state net operating loss carryforwards which may expire before they can be utilized. The decrease in the valuation allowance in 2003 primarily related to the increased likelihood that federal net operating loss carryforwards will be realized due to taxable income from partnerships to be recognized by the Company for tax purposes in 2004.

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The income tax expense attributable to income (loss) from continuing operations for the years ended June 30, 2004, 2003, and 2002 is as follows:

	2004	2003	2002
	-----	-----	-----
Current	\$ 979,000	\$ --	\$ --
	-----	-----	-----
Deferred:			
Federal	(1,273,000)	4,346,000	--

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State	(752,000)	1,507,000	--
	-----	-----	-----
Total deferred	(2,025,000)	5,853,000	--
	-----	-----	-----
Total current and deferred tax (benefit)	(1,046,000)	5,853,000	--
Tax expense allocated to discontinued operations ...	(238,000)	(15,000)	--
	-----	-----	-----
Total income tax expense (benefit)	\$ (1,284,000)	\$ 5,838,000	\$ --
	=====	=====	=====

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

	2004	2003	2002
	-----	-----	-----
Expected federal income tax expense (benefit)	\$ (1,386,000)	\$ 8,491,000	\$ (743,000)
State tax, net of federal benefit	(238,000)	1,457,000	(128,000)
Increase (decrease) in valuation allowance	160,000	(4,351,000)	620,000
Federal alternative minimum tax .	181,000	--	--
Expiration of net operating loss carryforward	--	185,000	191,000
Other	(1,000)	56,000	60,000
	-----	-----	-----
Provision for income tax expense	\$ (1,284,000)	\$ 5,838,000	\$ --
	=====	=====	=====

The following is a schedule of the significant components of the Company's deferred tax assets and deferred tax liabilities as of June 30, 2004 and 2003:

	2004	2003
	-----	-----
Deferred tax assets :		
Net operating loss carryforwards	\$ 1,330,000	\$ 4,753,000
Accumulated depreciation and amortization	123,000	101,000
Valuation allowance for impairment losses	275,000	919,000
Other	1,037,000	163,000
	-----	-----
Total deferred tax assets	2,765,000	5,936,000
Less valuation allowance	(1,435,000)	(1,275,000)
	-----	-----
Net deferred tax assets	\$ 1,330,000	\$ 4,661,000
	=====	=====
Deferred tax liabilities:		
Gain on sale to be recognized	\$ --	\$ 5,407,000
Gain on sale to be deferred	5,158,000	5,107,000
	-----	-----
Net deferred tax liabilities	\$ 5,158,000	\$ 10,514,000
	=====	=====

8. Leasing activities:

The Company was a sublessor of land to condominium owners under operating leases with an approximate remaining term of 44 years which commenced in 1981 and 1982. On March 20, 2002, the Company sold its interests in the subleases.

9. Business segment information:

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The Company operates principally in two business segments: commercial real estate rental, and golf club shaft manufacturing. Other revenues, which are not part of an identified segment, consist of property management and development fees (earned from both a property 50 percent owned by the Company and a property in which the Company has no ownership) and commercial brokerage. Two segments, bowling centers and real estate development, were disposed of in the fourth quarter of 2003 (Note 10).

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

	Real Estate Operation	Golf	Unallocated And Other	To
	-----	-----	-----	-----
YEAR ENDED JUNE 30, 2004				
Revenues	\$ 82,885	\$ 2,657,050	\$ 80,930	\$ 2,8
Depreciation and amortization	--	169,412	30,912	2
Impairment losses	--	--	1,376,316	1,3
Interest expense	--	--	2,798	
Equity in income of investee	76,958	--	--	
Gain on disposition	--	--	110,241	1
Segment profit (loss)	81,943	(2,415,553)	(1,778,120)	(4,1
Investment income				
Loss from continuing operations				(4,0
Significant non-cash items	(76,958)	--	1,376,316	1,2
Segment assets	3,799,847	1,759,621	1,569,671	7,1
Investment in equity of investees	3,797,288	--	--	3,7
Expenditures for segment assets	--	76,005	117,576	1
Information for disposed segments:				
Assets				
Expenditures				
YEAR ENDED JUNE 30, 2003				
Revenues	\$ 78,957	\$ 3,038,746	\$ 925,847	\$ 4,0
Depreciation and amortization	8,611	167,485	19,127	1
Impairment losses	--	--	--	
Interest expense	5,436	--	52,220	
Equity in income of investee	26,281,844	--	--	26,2
Gain on disposition	--	--	--	
Segment profit (loss)	26,271,354	(1,607,743)	231,404	24,8
Investment income				
Income from continuing operations				24,9
Significant non-cash items	(26,319,519)	--	--	(26,3
Segment assets	5,277,908	1,896,012	5,490,999	12,6
Investment in equity of investees	5,277,007	--	--	5,2
Expenditures for segment assets	--	5,210	12,640	
Information for disposed segments:				
Assets				
Expenditures				
YEAR ENDED JUNE 30, 2002				
Revenues	\$ 190,234	\$ 2,589,293	\$ 515,773	\$ 3,2
Depreciation and amortization	53,894	170,011	47,418	2
Impairment losses	44,915	--	--	
Interest expense	4,986	--	79,693	

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Equity in loss of investee	(59,788)	--	--	(
Gain on disposition	--	--	--	
Segment profit (loss)	(162,807)	(1,816,846)	(236,564)	(2,2
Investment income				
Loss from continuing operations				(2,1
Significant non-cash items	104,703	--	--	1
Segment assets	2,296	2,227,595	132,502	2,3
Investment in equity of investees	--	--	--	
Expenditures for segment assets	--	--	--	
Information for disposed segments:				
Assets				5
Expenditures				

Revenues from one customer of the Golf segment represented approximately \$321,000 of the Company's consolidated revenues for the year ended June 30, 2004.

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10. Disposition of business segments:

During the year ended June 30, 2003, the Company ceased operations in two business segments. The following is a summary of the income (loss) from the discontinued business segments excluding the income tax expense of \$238,000 related to 2004 and \$15,000 related to 2003:

	2004	2003	2002
	-----	-----	-----
Bowling	\$ 165,678	\$ (198,164)	\$ (10,619)
Real estate development	431,848	236,119	18,211
	-----	-----	-----
	\$ 597,526	\$ 37,955	\$ 7,592
	=====	=====	=====

(a) Bowling segment:

On May 31, 2003, the Company ceased operations at the leased facility (lease expired June 2003) occupied by the Grove Bowling Center. The Company sold the machinery and equipment for \$19,465 and recorded a gain of \$16,716. The cost and accumulated depreciation of the assets sold were \$473,861 and \$471,112, respectively.

The following is a summary of the results of operations of the bowling segment:

	2004	2003	2002
	-----	-----	-----
Revenues	\$ 165,678	\$ 1,441,508	\$ 1,783,545
Bowl costs ...	--	(1,277,431)	(1,404,006)
SG&A-direct ..	--	(231,397)	(236,068)
SG&A-corporate allocation ..	--	(125,000)	(117,465)
Depreciation .	--	(22,560)	(36,625)
Gain from sale	--	16,716	--
	-----	-----	-----
Income (loss)	\$ 165,678	(\$ 198,164)	(\$ 10,619)
	=====	=====	=====

(b) Real estate development segment:

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During the three years ended June 30, 2004, the Company's real estate development activities related to undeveloped land that was owned through a consolidated subsidiary, Old Vail Partners (OVP), and an unconsolidated subsidiary, Vail Ranch Limited Partnership (VRLP), which was accounted for using the equity method of accounting. The Company owns 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 \$1,853,838 has been paid through June 30, 2004 (\$73,000 in 2004, \$370,838 in 2003, \$50,000 in 2002, \$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. The balance of the minority interest as of June 30, 2004 was adjusted to the estimated amount that is likely to be distributed to this partner. The adjustment of \$343,839 is presented in the Consolidated Statement of Operations as a component of Income from Discontinued Operations

Three other parties were granted liquidating partnership interests related to either their efforts with achieving the zoning approval for the 33 acres described below 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 following is a summary of the results of operations of the real estate development segment:

	2004	2003	2002
	-----	-----	-----
Credit (provision) for impairment loss	\$ 88,009	\$ (88,881)	\$ --
Minority interest	343,839	--	--
Equity in income (loss) of investee	--	325,000	18,211
	-----	-----	-----
Income	\$ 431,848	\$ 236,119	\$ 18,211
	=====	=====	=====

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VRLP is a partnership formed in September 1994 between OVP (60 percent ownership interest since 1999) 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.

On February 21, 2003 Vail Ranch Limited Partners (VRLP) sold its interest in Temecula Creek LLC (TC) to its other partner in TC (ERT). The sale price consisted of \$1,318,180 cash plus one-half of the sale proceeds from the remaining parcel of undeveloped land owned by TC

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when it is sold. \$100,000 of the sales proceeds were being held in an escrow to be applied to any post closing claims ERT may have related to warranties and normal prorations in the sale contract for the TC interest. The cash proceeds to VRLP of \$1,218,180 received in February 2003 were partially offset by \$225,000 of fees paid to one of the VRLP partners. The Company received a distribution of \$592,776 of which \$370,838 was paid to the holder of the minority interest in Old Vail Partners. VRLP recorded a \$843,326 gain from the sale of the partnership interest. This gain was partially offset by VRLP's agreement to pay its general partner \$225,000 of fees related to the sale of the partnership interest. In the year ended June 30, 2004, VRLP received \$288,071 as its share of the proceeds from the sale of the undeveloped land, the balance of the hold back, and final settlement for allocation of revenues and expenses. The Company received \$155,009 of distributions from VRLP related to these transactions. The Company is not expecting any further distributions from VRLP. As part of the Company's obligation to pay approximately one-half of these proceeds to its minority partner, \$73,000 was paid to the minority partner during the year ended June 30, 2004.

The Company recorded provisions for impairment losses of \$480,000 in June 1998 and \$88,881 in March 2003 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. This was further adjusted in March 2004 to reverse \$88,009 of the provision to reflect the amounts actually received.

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

	2004	2003
	-----	-----
Balance, beginning	\$ 635,881	\$ 903,657
Equity in net income	--	325,000
Distributions received ...	(155,009)	(592,776)
	-----	-----
Balance, ending	480,872	635,881
Less valuation allowance	(480,872)	(568,881)
	-----	-----
	\$ --	\$ 67,000
	=====	=====

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11. Liquidity:

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has suffered recurring losses 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 selling the operations of its subsidiary, Penley Sports, and obtaining funds from additional financing of the properties owned by UCV and its subsidiaries. The consolidated financial statements do not contain adjustments, if any, including diminished recovery of asset carrying amounts, that could arise from forced dispositions and other insolvency costs.

12. Subsequent Events:

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On September 16, 2004 the Company committed to a plan of disposal of the graphite golf club shaft operation owned by Penley Sports, LLC (Penley). The Company is currently in negotiations to sell Penley to the former owner, Carter Penley. Carter Penley has verbally agreed to fund any cash flow deficits from November 1, 2004 until a sale is consummated or until the negotiations end. In either event, the Company will not be required to repay the advances unless the Company ceases negotiations without cause.

The following is a summary of the results of operations of Penley included in the financial statements:

	2004	2003	2002
Revenues	\$ 2,657,050	\$ 3,038,746	\$ 2,589,293
Golf costs ...	(2,758,039)	(2,829,698)	(2,604,436)
SG&A-direct ..	(1,247,152)	(1,295,306)	(1,390,692)
SG&A-corporate allocation .	(898,000)	(354,000)	(241,000)
Depreciation .	(169,412)	(167,485)	(170,011)
Loss	(\$2,415,553)	(\$1,607,743)	(\$1,816,846)
	=====	=====	=====

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13. Quarterly financial data (unaudited):

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

	QUARTERS ENDED 2004			
	September 30	December 31	March 31	June 30
Revenue	640,895	422,785	881,471	875,714
Total costs and expenses	1,348,330	1,225,758	1,607,315	2,935,593
Other income & expense, net ...	30,222	157,128	70,304	(39,150)
Income tax expense (benefit) ..	(259,000)	(257,000)	(198,000)	(570,000)
Income (loss) from Continuing operations	(418,213)	(388,845)	(457,540)	(1,529,029)
Income (loss) from Discontinued operations	--	--	88,009	271,517
Net income (loss)	(418,213)	(388,845)	(369,531)	(1,257,512)
Basic and diluted net income (loss) per common share from:				
Continuing operations	(0.02)	(0.01)	(0.02)	(0.06)
Net income (loss)	(0.02)	(0.01)	(0.01)	(0.05)

	QUARTERS ENDED 2003			
	September 30	December 31	March 31	June 30

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Revenue	743,102	681,857	918,350	1,700,241
Total costs and expenses	1,218,173	1,100,346	1,296,841	1,757,363
Other income & expense, net ...	15,616	22,347	(78,700)	26,306,491
Income tax expense	--	--	--	5,838,000
Income (loss) from				
Continuing operations	(459,455)	(396,142)	(457,191)	20,411,369
Income (loss) from				
Discontinued operations	(65,522)	(42,747)	258,092	(126,868)
Cumulative effect of change				
in accounting principle	37,675	--	--	37,675
Net income (loss)	(487,302)	(438,889)	(199,099)	20,284,501
Basic and diluted net income				
(loss) per common share from:				
Continuing operations	(0.02)	(0.01)	(0.02)	0.75
Net income (loss)	(0.02)	(0.02)	(0.01)	0.75

The impact on the fourth quarter of 2003 of the change in accounting principle described in footnote 4(b) was to record the Company's share of the gain on the sale of UCV of \$26,278,831 (\$0.96 per share) in the fourth quarter of 2003 rather than in the first quarter of 2004.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheet of UCV, L.P., a California limited partnership, as of June 30, 2004, and the related consolidated statements of operations and partners' equity (deficit) and cash flows for the year then ended. These consolidated financial statements are the responsibility of UCV, L.P.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of UCV, L.P. as of June 30, 2003, were audited by other auditors whose report dated September 5, 2003 expressed an unqualified opinion on these statements.

We conducted our audit in accordance with auditing standards of the Public Company Accounting Oversight Board, (United States). 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

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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 audit provides 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 UCV, L.P., a California limited partnership, as of June 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Peterson & Co., LLP
PETERSON & CO., LLP
October 15, 2004

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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 June 30, 2003 and the related statements of operations and partners' equity (deficit) and cash flows for the years ended June 30, 2003 and March 31, 2002 and the three-month period ended June 30, 2002. 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

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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 June 30, 2003 and the results of its operations and its cash flows for the years ended June 30, 2003 and March 31, 2002 and the three-month period ended June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(1) to the financial statements, effective April 1, 2003 the Partnership changed its year-end to June 30.

/s/ KPMG LLP
 KPMG LLP
 San Diego, California
 September 5, 2003

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UCV, L.P. AND SUBSIDIARIES
 (A CALIFORNIA LIMITED PARTNERSHIP)
 CONSOLIDATED BALANCE SHEETS - JUNE 30, 2004 and 2003

	2004	2003
	-----	-----
ASSETS		
Property and equipment (Note 3):		
Land	\$ 14,885,000	\$ --
Buildings	28,322,268	--
	-----	-----
	43,207,268	--
Less accumulated depreciation	(867,606)	--
	-----	-----
	42,339,662	--
Cash	71,566	119,293
Restricted cash (Note 3)	1,117,935	--
Cash held by accommodator (Note 5)	--	15,123,883
Accounts receivable	29,018	75,620
Straight-line rent receivable	369,454	--
Prepaid expenses	84,622	20,728
Deferred acquisition costs	--	77,015
Deferred loan costs, less accumulated amortization of \$52,249 in 2004	413,402	--
Deposits	--	200,000
Other	5,797	--
	-----	-----
	\$ 44,431,456	\$15,616,539
	=====	=====

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LIABILITIES AND PARTNERS' EQUITY

Debt (Note 3)	\$ 29,277,103	\$ --
Accounts payable	82,234	56,333
Accounts payable- affiliate	--	350,000
Accrued interest	146,995	--
Accrued property tax	181,569	--
Other accrued expenses	382,569	--
Tenants' security deposits	352,317	--
	-----	-----
	30,422,787	406,333
Minority interest	260	--
Partners' equity	14,008,409	15,210,206
	-----	-----
	\$ 44,431,456	\$15,616,539
	=====	=====

See accompanying notes to financial statements.

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UCV, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND PARTNERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003, AND MARCH 31, 2002 AND
FOR THE THREE MONTHS ENDED JUNE 30, 2002

	Year Ended June 30, 2004	Year Ended June 30, 2003	Three Months Ended June 30, 2002	Year Ended March 31, 2002
	-----	-----	-----	-----
Rent revenues	\$ 3,063,738	\$ --	\$ --	\$ --
Tenant reimbursements	474,677	--	--	--
Other rental related	72,783	--	--	--
	-----	-----	-----	-----
	3,611,198	--	--	--
	-----	-----	-----	-----
Operating expenses	1,034,183	--	--	--
Management fees, related party (Note 2)	47,423	--	--	--
Depreciation	867,606	--	--	--
Interest and amortization of loan costs	1,442,107	--	--	--
	-----	-----	-----	-----
	3,391,319	--	--	--

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Income before discontinued operations	219,879	--	--	--
Income (loss) from discontinued operations ...	--	52,563,687	75,350	(119,577)
Net income (loss)	219,879	52,563,687	75,350	(119,577)
Partners' equity (deficit), beginning of year	15,210,206	(33,252,981)	(32,871,331)	(28,370,933)
Cash distributed to partners	(1,421,676)	(4,100,500)	(457,000)	(4,380,821)
Partners' equity (deficit), end of year	\$ 14,008,409	\$ 15,210,206	(\$33,252,981)	(\$32,871,331)

See accompanying notes to financial statements.

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UCV, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2004 AND 2003, AND MARCH 31, 2002 AND
FOR THE THREE MONTHS ENDED JUNE 30, 2002

	Year Ended June 30, 2004	Year Ended June 30, 2003	Three Months Ended June 30, 2002	Year Mar 2
Cash flows from operating activities:				
Net income (loss)	\$ 219,879	\$ 52,563,687	\$ 75,350	\$ (1
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation	867,606	10,649	3,102	
Amortization of deferred loan costs ..	52,249	777,022	282,387	
Increase in straight-line rent receivable	(369,454)	--	--	
Loss from extinguishment of debt	--	--	--	
Gain on sale	--	(52,557,662)	--	
Other	--	48,500	--	
Changes in assets and liabilities:				
Increase in restricted cash	(1,117,935)	(231,266)	(88,074)	
(Increase) decrease in receivables ...	46,602	(44,247)	(695)	
(Increase) decrease in prepaid expenses	(63,894)	169,168	(155,262)	
Increase in accounts payable and other accrued expenses	240,039	19,439	87,783	

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Increase (decrease) in accrued interest	146,995	--	--	(
Increase (decrease) in security deposits	352,317	(225,930)	12,668	
Other	(5,797)	--	--	
	-----	-----	-----	
Net cash provided by operating activities	368,607	529,360	217,259	
	-----	-----	-----	
Net cash from investing activities:				
Additions to redevelopment costs	--	(422,000)	(23,163)	(
Additions to property and equipment ...	(43,207,268)	(5,269)	(1,357)	
Proceeds from sale	--	55,928,702	--	
(Increase) decrease to purchase escrows	200,000	(200,000)	--	
(Incr.) decr. in cash at accommodator .	15,123,883	(15,123,883)	--	
(Incr.) decr. in deferred acquisition costs	77,015	(77,015)	--	
	-----	-----	-----	
Net cash provided (used) by investing activities	(27,806,370)	40,100,535	(24,520)	(
	-----	-----	-----	
Cash flows from financing activities:				
Principal payments on debt	(286,278)	--	--	
Extinguishment of debt	--	(38,000,000)	--	(33,
Proceeds from debt	29,563,381	--	--	38,
Refund of restricted cash held by lender	--	1,340,348	--	
Restricted cash funded from loan proceeds	--	--	--	(1,
Loan costs	(465,651)	--	298	(1,
Increase in minority interest	260	--	--	
Cash distributed to partners	(1,421,676)	(4,100,500)	(457,000)	(4,
	-----	-----	-----	
Net cash provided (used) by financing activities	27,390,036	(40,760,152)	(456,702)	(
	-----	-----	-----	
Net decrease in cash	(47,727)	(130,257)	(263,963)	(
Cash, beginning of year	119,293	249,550	513,513	
	-----	-----	-----	
Cash, end of year	\$ 71,566	\$ 119,293	\$ 249,550	\$
	=====	=====	=====	=====
Supplemental cash flow information:				
Interest paid	\$ 1,242,863	\$ 1,949,170	\$ 553,900	\$ 2,
	=====	=====	=====	=====

See accompanying notes to financial statements

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1. Organization and Summary of Significant Accounting Policies:

- (a) Organization- UCV, L.P., is a California limited partnership (the Partnership) which conducts business as University City Village. The Partnership is the sole member of three California limited liability companies, 760, LLC, 939, LLC and UCV Media Tech Center, LLC ("UCV MTC"). 760, LLC owns a 99.99% undivided interest in a commercial real estate property in San Diego, California. The other .01% undivided interest is owned by Harold S. Elkan (Elkan), the controlling shareholder of Sports Arenas, Inc., which is the parent company for one of the general and limited partners the Partnership. This interest is presented as Minority Interest in Consolidated Subsidiaries in the balance sheet.
- (b) Principles of consolidation - The accompanying consolidated financial statements include the accounts of UCV, L.P. and its three wholly owned subsidiaries, 760, LLC, 939 LLC, and UCV MTC. All material inter-company balances and transactions have been eliminated.
- (c) Leasing arrangements- Until April 1, 2003, when the apartment project was sold, the Partnership leased apartments under operating leases that were substantially all on a month-to-month basis. The apartment operations were the Partnership's only business segment until it was sold. Rental revenues were recognized when earned.

Commencing August 28, 2003, the Partnership, as a lessor, commenced leasing commercial real estate under operating leases that are for periods ranging from one to fifteen years. Base rental income is recognized on a straight-line basis over the terms of the respective lease agreements. Differences between rental income recognized and amounts contractually due under the lease agreements are credited or charged, as applicable, to straight-line rent receivable. The difference between straight-line rental income and contractual rental income increased revenue by \$369,000 in 2004 and is listed in the accompanying balance sheets as Straight-line Rent Receivable. The leases generally contain provisions under which the tenants reimburse the Partnership for a portion of property operating expenses, real estate taxes, and other recoverable costs.

- (d) 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 (25 or 33 years for real property and 3-10 years for equipment). The depreciable basis of the property and equipment for tax purposes is approximately \$40,183,000 less than the basis used for financial statement purposes.
- (e) 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.
- (f) Redevelopment planning costs- Prior to April 1, 2003, the Partnership capitalized engineering, architectural and other costs incurred related to the planning of the possible redevelopment of the apartment project.
- (g) Deferred loan costs- Costs incurred in obtaining financing were amortized using the straight-line method over the term of the related loan.

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- (h) 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, cash held by accommodator, 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.

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UCV, L.P. AND SUBSIDIARIES
(a California Limited Partnership)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2004, JUNE 30, 2003, MARCH 31, 2002 AND
THE THREE MONTH PERIOD ENDED JUNE 30, 2002

- (i) 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. The terms of a note payable, which was paid in April 2003, had required the Partnership to maintain an interest rate cap (the Cap) on the notional principal amount of the debt. The Partnership used this derivative financial instrument to effectively manage the interest rate risk of the related 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 derivative financial instruments in Note 4.

- (j) Use of estimates - Management of the Partnership 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 financial statements and reported amounts of revenue and expenses during the reporting period to prepare these financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from these estimates.
- (k) 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.
- (l) Accounting period- effective April 1, 2003 the Partnership changed the

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date of its fiscal year end from March 31 to June 30 to conform to the fiscal year end of one of the partners (See Note 6).

- (m) Basis of presentation- As a result of the sale of the sole asset of the Partnership on April 1, 2003, the results of operations for each of the periods presented have been classified as discontinued operations.

2. Related party transactions:

An affiliate of a partner provided management services to the Partnership and was paid a fee equal to 2-1/2 percent of gross revenues, as defined. This agreement was terminated April 1, 2003 upon the sale of the apartment project. On August 28, 2003, the same affiliate of a partner commenced providing management services to the commercial real estate properties owned by 760, LLC and 939, LLC and is paid a fee equal to four percent of monthly revenues.

In July 1998 the Partnership entered into development services agreements with two affiliates of a partner. The agreements were cancelable on 30 days notice and related to planning for redevelopment of the apartments. The affiliate was paid the following amounts for these development services: \$72,000 for the year ended June 30, 2003; \$96,000 for each of the years ended March 31, 2002 and 2001; and \$24,000 for each of the three month periods ended June 30, 2002 and 2001. The agreements were terminated on April 1, 2003.

As part of the sales transaction described in Note 5, an affiliate of a partner earned a sales commission of \$350,000 in April 2003.

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UCV, L.P. AND SUBSIDIARIES
(a California Limited Partnership)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2004, JUNE 30, 2003, MARCH 31, 2002 AND
THE THREE MONTH PERIOD ENDED JUNE 30, 2002

3. Debt:

As of June 30, 2004, debt consisted of the following:

- | | |
|--|--------------|
| 5.819% note payable, collateralized by first deed of trust on \$9,495,998 of land and building and related leases, provides for monthly payments of \$42,434 including interest based on a base rate (six month LIBOR) plus 4.25 percent and principal based on amortization of the principal balance over 25 years. This balance is due September 1, 2013. The note payable also requires monthly payments of \$5,000 to be held in an impound to be used for qualified expenditures for leasing commissions and tenant improvements. Harold S. Elkan is a co-borrower. | \$ 6,546,710 |
| 5.50% note payable to seller, collateralized by second deed of trust on \$9,495,998 of land and building, provides for monthly payments of interest only, balance due August 22, 2006. | 76,500 |
| 7.15% note payable, collateralized by first deed of trust on \$4,935,774 of land and building and related leases, provides for monthly payments of | |

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<p>\$19,112 including interest based on a fixed rate of 7.15% and principal. This balance is due September 1, 2013. The note payable also requires monthly payments of \$6,365 to be held in an impound to be used for insurance and property taxes.</p>	<p>2,604,092</p>
<p>5.95% note payable, collateralized by first deed of trust on \$28,775,496 of land and building and related leases and a \$1,250,000 letter of credit, provides for monthly payments of \$119,268 including interest 5.95% and principal based on amortization of the principal balance over 30 years. This balance is due October 1, 2013. The note payable requires monthly payments of \$24,375 to be held in an impound for property taxes and insurance and additional payments of \$44,008 to be held in an impound to be used for qualified expenditures for leasing commissions and tenant improvements.</p>	<p>19,849,801</p>
<p>Total</p>	<p>----- \$ 29,277,103 =====</p>

The values of property and equipment as collateral for the notes are listed at historical cost. The funds being held by the lender in impounds as noted above, are classified in the accompanying balance sheet as restricted cash.

The \$2,604,092 note payable loan agreement contains a provision that Sports Arenas, Inc., the parent company of two of the partners of the Partnership and guarantor of certain provisions of the loan agreement, maintain a minimum net worth of \$1,000,000. As of June 30, 2004, Sports Arenas, Inc. no longer met that requirement. The Partnership is in the process of requesting a waiver of this covenant.

If the lender does not grant a waiver of the covenant as noted above, the principal payments due on notes payable during the next five fiscal years are as follows: \$3,032,000 in 2005, \$454,000 in 2006, \$759,000 in 2007, \$508,000 in 2008, and \$543,000 in 2009.

On April 1, 2003, the Partnership sold its 542 unit apartment project and paid the related debt of \$38,000,000.

On March 8, 2002, UCV refinanced its \$33,000,000 note payable with two loans totaling \$38,000,000. Each of the loans matured April 1, 2003 and provided for a six month extension upon meeting certain financial criteria. The first deed of trust was \$36,000,000 and provided for monthly payments equal to interest plus principal based on a 30 year amortization schedule. Interest was based on an annual interest rate of 300 basis points above the greater of the 30-Day LIBOR rate or 2.4 percent, adjusted monthly. UCV paid a \$48,500 fee to cap the base rate of LIBOR at 4 percent, which effectively capped the maximum interest rate charged at 7 percent over the term. This note was collateralized by UCV's land, buildings and leases. The Partnership was required to make monthly payments of approximately \$29,358 to a property tax and insurance impound account and \$15,803 to a replacement reserve account maintained by the lender. Additionally, \$787,198 was deducted from the loan proceeds and was being held by the lender as funds to be used for estimates of deferred maintenance. This amount was included in Restricted Cash in the balance sheet as of June 30, 2002.

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(a California Limited Partnership)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2004, JUNE 30, 2003, MARCH 31, 2002 AND
THE THREE MONTH PERIOD ENDED JUNE 30, 2002

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

The proceeds of the new loans, after extinguishing the \$33,000,000 note payable were utilized to: pay loan costs of \$1,178,044 and pay distributions to the partners of \$3,400,000 in March 2002. The refinancing resulted in charges of \$335,042 related to the unamortized portion of deferred loan costs related to the old note payable.

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 instruments did not currently qualify for hedge accounting treatment. Although the Partnership's Caps as of March 31, 2002 were 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 Caps in this manner. For the year ended June 30, 2003 the Partnership recorded a loss of \$48,500 in discontinued operations for the change in the value of the Cap since inception of the transaction on March 8, 2002.

5. Sale of property:

On April 1, 2003 the Partnership sold its property and equipment for \$58,400,000 cash to an unrelated third party. The net proceeds from the sale were \$19,298,141 after deducting current selling expenses of \$2,495,820, paying the related mortgage loans of \$38,000,000 and receiving a \$1,340,348 refund of lender impounds. The Partnership utilized \$4,009,000 of the proceeds to fund cash distributions to the partners and pay other Partnership obligations. The balance of the funds \$15,289,722, were deposited in a special escrow with a qualified intermediary ("exchange accommodator") for purposes of meeting the Internal Revenue Service criteria for purchasing "like-kind" property and thereby qualifying to defer the taxability of a portion of the gain from the sale of the property on April 1, 2003.

The sale resulted in a gain of \$52,557,662 after deducting current selling expenses plus \$53,613 of costs deferred from a prior period, cost of property and equipment of \$7,016,738 less accumulated depreciation of \$5,707,721, and the accumulated redevelopment planning costs of \$2,037,501. In accordance with SFAS 66, Accounting for Sales of Real Estate, this gain was recognized at the time of sale because the profit was determinable and the earnings process was complete.

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UCV, L.P. AND SUBSIDIARIES
(a California Limited Partnership)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2004, JUNE 30, 2003, MARCH 31, 2002 AND
THE THREE MONTH PERIOD ENDED JUNE 30, 2002

The following is a summary of the results of operations of the 542 unit apartment project for each of the periods presented, which have been classified as discontinued operations:

	Year Ended June 30, 2003	Three Months Ended June 30, 2002	Year Ended March 31, 2002
	-----	-----	-----
Revenues:			
Apartment rentals	\$ 4,175,467	\$ 1,331,324	\$ 5,206,822
Other rental related	170,408	44,219	198,896
	-----	-----	-----
	4,345,875	1,375,543	5,405,718
	-----	-----	-----
Costs and expenses:			
Operating	1,149,604	355,150	1,227,883
General and administrative	294,676	70,326	307,882
Management fees, related party ..	110,229	35,328	136,445
Depreciation	10,649	3,102	14,399
Other expense	48,500	--	--
Interest and amortization of loan costs	2,726,192	836,287	3,503,644
Loss from extinguishment of debt	--	--	335,042
	-----	-----	-----
	4,339,850	1,300,193	5,525,295
	-----	-----	-----
Income (loss) before gain on sale ..	6,025	75,350	(119,577)
Gain on sale	52,557,662	--	--
	-----	-----	-----
Net income (loss) from discontinued operations	\$52,563,687	\$ 75,350	\$ (119,577)
	=====	=====	=====

6. Change in Accounting Period:

Effective April 1, 2003, the Partnership changed the date of its fiscal year end from March 31 to June 30 to conform to the fiscal year end of one of the partners. The following unaudited financial statement information for the three-month period ended June 30, 2001 is for comparative purposes:

Revenues:	
Apartment rentals	\$1,274,062
Other rental related	54,673

	1,328,735

Costs and expenses:	
Operating	314,206
General and administrative	70,141
Management fees, related party	33,402
Depreciation	3,255
Interest and amortization of loan costs	868,336

	1,289,340

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Net income \$ 39,395
 =====

7. Minimum Future Lease Payments:

Minimum future lease payments to be received as of June 30, 2004 are as follows: 2005: \$1,283,000; 2006: \$1,319,000; 2007: \$1,364,000; 2008: \$1,431,000; 2009: \$1,457,000; thereafter: \$4,026,000; and in total: \$10,880,000

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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.

(Registrant) SPORTS ARENAS, INC.

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

 Harold S. Elkan, President & Director

DATE: December 30, 2004

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	December 30, 2004 -----
/s/ Patrick D. Reiley ----- Patrick D. Reiley	Director	December 30, 2004 -----

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INDEX TO EXHIBITS

Exhibit No	Exhibit Description
3.1	Certificate of Incorporation dated September 30, 1957
3.2	By-Laws of the Company
3.3	Amendment to Certificate of Incorporation dated May 9, 1972
3.4	Amendment to Certificate of Incorporation dated February 21, 1987
10.1	Lease Agreement dated as of April 5, 1994 between the Company and DP Partnership
10.2	First Amendment to Lease Agreement dated as of November 1, 1996 between the Company and DP Partnership
10.3	Second Amendment to Lease Agreement dated as of November 28, 1998 between the Company and DP Partnership
10.4	Third Amendment to Lease Agreement dated as of December 18, 1998 between the Company and DP Partnership
10.5	Fourth Amendment to Lease Agreement dated as of January 19, 1999 between the Company and DP Partnership
10.6	Fifth Amendment to Lease Agreement dated as of February 29, 1999 between the Company and DP Partnership
10.7	Sixth Amendment to Lease Agreement dated as of March 29, 1999 between the Company and DP Partnership
10.8	Agreement of Limited Partnership for UCV, L.P. dated June 1, 1994
10.9	First Amendment to Agreement of Limited Partnership for UCV, L.P. dated February 27, 2001
10.10	Agreement of Limited Partnership for Vail Ranch Limited Partnership dated April 1, 1994
10.11	Amendment to Limited Partnership Agreement for Vail Ranch Limited Partnership dated January 25, 1996
10.12	Agreement of Limited Partnership for Old Vail Partners, L.P. dated September 23, 1994
10.13	Lease Agreement dated February 17, 2000 between the Company and H.G. Fenton Company
10.14	Agreement for Sale of Office Building dated October 23, 2000
10.15	Agreement for Sale of Bowling Center Real Estate dated October 23, 2000
10.16	Agreement for Sale of Undeveloped Land dated January 11, 2001

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- 10.17 Agreement for Sale of University City Village Apartments dated February 14, 2003
- 10.18 Amendment to Agreement for Sale of University City Village Apartments dated March 6, 2003
- 10.19 Debt Payment and Extra Compensation Agreement, dated as of June 30, 2004 by and between Sports Arenas, Inc. and Harold S. Elkan (filed as Exhibit 99.1 to Sports Arenas, Inc.'s report on Form 8-K, as filed with the Securities and Exchange Commission on July 7, 2004).
- 10.20 Statement Confessing Judgement, dated as of June 30, 2004 by and between Sports Arenas, Inc. as plaintiff and Andrew Bradley, Inc. as defendant (filed as Exhibit 99.2 to Sports Arenas, Inc.'s report on Form 8-K, as filed with the Securities and Exchange Commission on July 7, 2004).
- 10.21 Promissory Note, dated as of December 21, 1990 from Andrew Bradley, Inc. to Sports Arenas, Inc. (filed as Exhibit 99.1 to Sports Arenas, Inc.'s report on Form 8-K, as filed with the Securities and Exchange Commission on July 7, 2004).
- 21.1 Subsidiaries of Registrant
- 31.1 Certification of Chief Executive Officer
- 31.2 Certification of Chief Financial Officer
- 32.1 Certification of Chief Executive Officer pursuant to Sec. 906
- 32.2 Certification of Chief Financial Officer pursuant to Sec. 906

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EXHIBIT 21.1

SPORTS ARENAS, INC. AND SUBSIDIARIES
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.
Nevada	UCVNV, Inc.
California	UCVGP, Inc.
California	UCV, L.P. (1% general partner)
California	Sports Arenas Properties, Inc.
California	UCV, L.P. (35% limited partner) (formerly known as University City Village, a joint venture)
California	760, LLC, a California limited liability company,

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	100% owned by UCV, LP
Delaware	939, LLC, a Delaware limited liability company, 100% owned by UCV, LP
Delaware	UCV Media Tech Center, LLC, a Delaware limited liability Company, 100% owned by UCV, LP
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.