TEAM SPORTS ENTERTAINMENT INC
Form 10QSB
May 11, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarter Ended: MARCH 31, 2004

Commission File Number: 0-23100

TEAM SPORTS ENTERTAINMENT, INC.
(Exact name of small business issuer as specified in its charter)

DELAWARE	22-2649848
(State of Incorporation)	(IRS Employer ID No)

16501 D NORTHCROSS DR, HUNTERSVILLE, NC 28078
(Address of principal executive office)

(704) 992-1290
(Issuer's telephone number)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ].

The number of shares outstanding of registrant's common stock, par value $.0001 per share, as of April 30, 2004 was 63,782,412.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X].

TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY
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TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED BALANCE SHEET
MARCH 31, 2004
(UNAUDITED)

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 7,001
Restricted cash	100,000
Prepaid expenses and other assets	1,448
Total assets	$ 108,449
LIABILITIES AND STOCKHOLDERS' DEFICIT	
CURRENT LIABILITIES	
Accounts payable	$ 21,565
Accrued expenses	118,509
Amounts payable to related parties	336,905
Accrued interest payable	276,345
Convertible promissory notes	3,035,250
Total liabilities	3,788,574
Commitments and contingencies	
STOCKHOLDERS' DEFICIT	
Preferred stock: $2.75 par value; authorized 2,000,000 shares; no shares issued and outstanding	--
Common stock: $.0001 par value; authorized 500,000,000 shares; issued 63,901,212 shares and outstanding 63,782,412 shares	6,378
Additional paid-in capital	15,874,618
Accumulated deficit	(19,561,121)
Total stockholders' deficit	(3,680,125)
Total liabilities and stockholders' deficit	$ 108,449

See accompanying notes to condensed consolidated financial statements.

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TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2004 AND 2003, AND THE PERIOD
FROM INCEPTION (MAY 15, 2001), THROUGH MARCH 31, 2004
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 2004	THREE MONTHS ENDED MARCH 31, 2003	FROM INCEPTI (5/15/2001 THROUGH MARCH 31 2004
DISCONTINUED OPERATIONS			
Loss from discontinued operations	$ (211,748)	$ (526,126)	$(15,265,7
Income tax benefit	--	--	
NET LOSS FROM DISCONTINUED OPERATIONS	$ (211,748)	$ (526,126)	$(15,265,7
NET LOSS PER SHARE, BASIC AND DILUTED, FROM DISCONTINUED OPERATIONS	$ (0.00)	$ (0.01)	$ (0.
WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED	63,782,412	63,476,312	63,011,4

See accompanying notes to condensed consolidated financial statements.

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TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY
(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2004 AND 2003, AND THE PERIOD
FROM INCEPTION (MAY 15, 2001), THROUGH MARCH 31, 2004
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 2004	THREE MONTHS ENDED MARCH 31, 2003	FR
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (211,748)	$ (526,126)	$
Loss from discontinued operations	(211,748)	(526,126)	
Loss from continuing operations	--	--	

Net cash used in discontinued operations	(81,667)	(617,515)
Net cash used in operations	(81,667)	(617,515)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash used in discontinued operations	--	--
Net cash used in investing activities	--	--
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash from discontinued operations	--	--
Net cash provided by financing activities	--	--
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(81,667)	(617,515)
CASH AND CASH EQUIVALENTS, beginning of period	88,668	650,305
CASH AND CASH EQUIVALENTS, end of period	$ 7,001	$ 32,790

See accompanying notes to condensed consolidated financial statements.

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TEAM SPORTS ENTERTAINMENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The following notes to the condensed consolidated financial statements and management's discussion and analysis or plan of operation contain "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may include projections or expectations of future financial or economic performance of the Company, and statements of the Company's plans and objectives for future operations. Words such as "expects", "anticipates", "approximates", "believes", "estimates", "hopes", "intends", and "plans", and variations of such words and similar expressions are intended to identify such forward-looking statements. No assurance can be given that actual results or events will not differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements. Important factors that could result in such differences, in addition to other factors noted with such forward-looking statements, include those discussed in Exhibit 99.1 filed with the Securities and Exchange Commission as an exhibit to the Company's Annual Report on Form 10-KSB for fiscal year 2002.

NOTE 1--BASIS OF PRESENTATION

The condensed consolidated financial statements include the accounts of Team Sports Entertainment, Inc. and its wholly owned subsidiary, Maxx Motorsports, Inc. ("Maxx"), and its wholly owned subsidiary, Team Racing Auto Circuit, LLC ("TRAC") (collectively, the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation. Maxx, through TRAC, planned to own, operate and sanction an automotive racing league designed to provide content for television and tracks while expanding the existing base of racing fans. Accordingly, the operations of the Company are presented as those of a development stage enterprise, from its inception (May 15, 2001), as prescribed by Statement of Financial Accounting Standards No. 7, "Accounting and Reporting by Development Stage Enterprises." The Company follows the AICPA SOP 98-5, "Reporting on the Costs of Start-Up Activities" in accounting for its start-up activities. On August 26, 2003, the Board of Directors of the Company unanimously approved a plan to immediately discontinue its racing operation. As the racing operation was its only business, all operations of the Company have been included in discontinued operations.

The condensed consolidated financial statements included in this report have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting and include all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary for a fair presentation. These condensed consolidated financial statements have not been audited.

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Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations for interim reporting. The Company believes that the disclosures contained herein are adequate to make the information presented not misleading. However, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2003, which is included in the Company's Form 10-KSB for the year ended December 31, 2003. The financial data for the interim periods presented may not necessarily reflect the results to be anticipated for the complete year.

Certain reclassifications of the amounts presented for the comparative period have been made to conform to the current presentation.

NOTE 2--GOING CONCERN

The Company has been in the development stage since its inception (May 15, 2001), and has not established sources of revenue sufficient to fund the development of business and pay operating expenses, resulting in a net loss of $15,265,769 from inception through March 31, 2004. The Company has ceased its plans to begin a racing league and all operations have been discontinued. In addition, current liabilities of the Company exceed their assets by approximately $3,680,000 and their convertible promissory notes payable obligations are in default. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These condensed consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties.

Since August 26, 2003, the Company has attempted to locate and negotiate with a business entity for a merger of that business into the Company. There can be no assurance that the Company will be able to locate a suitable acquisition candidate before it exhausts its cash reserves.

NOTE 3--DISCONTINUED OPERATIONS

The Company has been in the development stage since its inception (May 15, 2001), and has not established sources of revenue sufficient to fund the development of business and pay operating expenses, resulting in a net loss of

$15,265,769 from inception through March 31, 2004.

On August 26, 2003, the Board of Directors of the Company unanimously approved a plan to immediately discontinue its racing operation. As the racing operation was its only business, all operations of the Company have been included in discontinued operations.

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As a part of the evaluation of the assets of the Company, the following assets were considered to be fully impaired based upon management's expectation that they had no future value. These amounts have been recorded as impairment losses and were included in loss from discontinued operations during the quarter ended September 30, 2003.

Race car designs and manufacturing equipment	$ 1,673,400
Production contract payments	2,545,781
Goodwill	2,810,627
Total	$ 7,029,808

NOTE 4--STOCK OPTION PLANS

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25 (APB No. 25), "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its stock option plan. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

SFAS No. 123, "Accounting for Stock Based Compensation" (SFAS No. 123), requires the Company to disclose pro forma information regarding option grants made to its employees. SFAS No. 123 specifies certain valuation techniques that produce estimated compensation charges that are included in the pro forma results below. These amounts have not been reflected in the Company's consolidated statement of operations, because APB No. 25 specifies that no compensation charge arises when the price of the employees' stock options equal the market value of the underlying stock at the grant date, as in the case of options granted to the Company employees, board of directors, advisory committee members, and consultants.

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SFAS No. 123 pro forma numbers are as follows for the three months ended March 31, 2004 and 2003, and for the period from inception (May 15, 2001), through March 31, 2004:

	March 31, 2004	March 31, 2003	Fro incep (May 15, thro March 200
Net loss from discontinued operations,			

as reported	$ 211,748	$ 526,126	$ 15,26
Add: Stock-based employee compensation expense determined under fair value based method for all awards	138,552	107,409	4,18
Deduct: Stock-based employee compensation included in reported net loss	-	-	
Pro forma net loss	$ 350,300	$ 633,535	$ 19,45
Basic and diluted net loss per share:			
Pro forma	$ (.01)	$ (.01)	$
As reported	$ (.00)	$ (.01)	$

Under SFAS No. 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. In 2001, the year in which all prior options were issued, the following weighted average assumptions were used: risk-free interest rate based on date of issuance and term between 3.83% and 4.93%, no expected dividends, a volatility factor of 138.13% and an expected life of the options of 3 to 10 years.

On April 2, 2003, the Board of Directors granted options to certain employees and directors to acquire 8,800,000 shares of the Company's common stock at prices ranging from $.42 to $1.00 per share. The options were scheduled to vest as follows: 4,500,000 on April 2, 2003, 2,210,000 on the day the 2004 racing season commences and 2,090,000 on the day the 2005 racing season commences. The following assumptions were used: risk-free interest rate of 4.67%, no expected dividends, a volatility factor of 127.59% and an expected life of the option of 1 to 2 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company employee stock options have characteristics significantly different

from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, it is management's opinion that the existing models do not necessarily provide a reliable single measure of the fair value of the Company options.

NOTE 5--CONVERTIBLE PROMISSORY NOTES

In April 2003, holders of $1,645,000 of the $2,270,000 convertible promissory notes agreed to extend the maturity date of their respective notes from August 31, 2003 to March 1, 2004. In addition, certain holders of the notes increased the principal amount of their notes by an aggregate amount of $765,250. A 10% loan origination fee was paid on the increased principal balances through the issuance of 306,100 shares of the Company's common stock to the holders of the notes at $.25 per share. The origination fee of $76,525 is being amortized over the terms of the convertible promissory notes. Notes in the aggregate principle amount of $625,000 bear interest at 8% per annum, require quarterly interest payments, and matured August 31, 2003. The remaining notes, in the aggregate principle amount of $2,410,250, bear interest at 8% per annum, require quarterly interest payments, and matured March 1, 2004. Each note is convertible into common stock of the Company at the rate of $.20 per share. The common stock issuable upon conversion of the convertible notes payable is restricted and may only be sold in compliance with Rule 144 of the Securities Act of 1933, as amended.

At Mach 31, 2004, the Company owed accrued interest on the notes of $276,345 and has not made any quarterly interest payments since May 2003. All notes are currently in default and the default rate of interest is 12%, since the default occurred.

NOTE 6--COMMITMENTS AND CONTINGENCIES

RACING CAR DESIGN AND CONSTRUCTION AGREEMENT - On October 22, 2001, TRAC entered into a Racing Car Design and Construction Agreement with Riley & Scott Race Car Engineering ("Riley & Scott"). The agreement required payments aggregating $1,515,000 during Phase I, which was 23 weeks, and included design, tooling, prototype construction and aero tooling. Phase II of the agreement commenced after completion of Phase I and was planned to be completed in 58 weeks. Phase II was based upon production of 100 racing cars, at a cost of approximately $110,000 each, plus the cost of engines. The agreement also provided for the contractor to be the sole provider of most repair service. Phase I of the agreement was completed during April 2002, and Phase II of the agreement commenced in April 2002. In August 2002, TRAC and Riley & Scott agreed upon a revised schedule based on the delay of the initial race season to 2004. This revised schedule required a $500,000 payment prior to August 31, 2002, and subsequent monthly payments of $50,000 through March 31, 2003. Phase II of the agreement was placed on hold due to TRAC not meeting the required payment schedule. At September 30, 2003, TRAC had incurred and paid in Phase II total costs of $2,545,781.

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The agreement terms included that upon temporary cessation or early termination of the agreement, Riley & Scott shall have all rights and title to all tangible and intangible Phase I products and components, all racing cars, components, vendored components and spares ("Post Termination Inventory") then in its possession. When the agreement was terminated, Riley & Scott had possession of all Post Termination Inventory. Riley & Scott may sell all or part of the Post Termination Inventory in any arms length transaction in a bona fide transaction to the buyer offering the highest price. In the event that the amount realized in any such sale is less than the total amount due as of the termination date, Riley & Scott shall be entitled to money damages equal to the difference between the net proceeds of the sale and the full amount due as of the termination date plus penalties to include attorney's fees, interest on delinquent amounts, storage fees, insurance, broker's fees, and advertising expenses. In the event that the sales price of the Post Termination Inventory exceeds Riley & Scott's cost and penalties, TRAC would receive 75% of the excess.

Management of the Company has determined that the Company would be unlikely to recover anything from the ultimate sale by Riley & Scott. Accordingly, the related assets have been considered fully impaired. Management does not believe the Company has any remaining liability to Riley & Scott.

TEAM SALES BROKERAGE AGREEMENT - In June 2002, TRAC engaged Moag & Company to be the exclusive broker of all team sales for a one-year term, and in June 2003, TRAC and Moag & Company amended and restated their agreement to extend the term of the agreement through April 16, 2004 (the "Moag Agreement"). TRAC was attempting, through Moag & Company, to sell at least six teams for its inaugural race season of 2004. Under the Moag Agreement, TRAC paid an initial fee of $25,000 and would have paid to Moag & Company upon each sale of a team a cash fee of $400,000 and warrants to purchase $200,000 of common stock, with an exercise price per share equal to the greater of $1.00 or the ten-day average closing price for the common stock ("Moag Warrants"). The Moag Warrants were to be for a seven-year term and become exercisable in equal installments over the first four years they would have been outstanding. Management is of the opinion that this agreement was terminated without future liability when racing operations were discontinued.

BROADCASTING AGREEMENT - In April 2003, the Company entered into an agreement with ESPN, Inc. and ESPN Productions, Inc. (together, "ESPN"), pursuant to which ESPN was to provide for the live broadcasting of at least 13 two-hour League events and produce these television events for the 2004 and 2005 racing seasons (the "ESPN Agreement"). TRAC, subject to ESPN approvals, had the right to sell national television advertising (16 units per hour per event), billboard and signage advertising and sponsorships. The ESPN Agreement required TRAC to pay expected production fees ("Production Fees") of $525,000 per event in 2004 and $550,000 per event in 2005, with 6% annual increases thereafter during successive contract renewal periods, and an initial Production Fee of $375,000 payable in October 2003 for animation, graphics, music and track surveys, with $30,000 each year thereafter for upgrades. TRAC would also have paid ESPN consideration for broadcasting all TRAC racing league ("League") events on a per

event basis ("Broadcast Consideration") in the 2004 and 2005 seasons aggregating to $3,460,000 each year, with increases of 5% each year thereafter. The ESPN Agreement was to cover the 2004 and 2005 League seasons, with ESPN having successive options to renew the agreement, first, through the 2007 season, second, through the 2009 season and finally, through the 2015 season. Before the expiration of the ESPN Agreement, TRAC would have been required to negotiate exclusively with ESPN for sixty days for broadcast rights, to make an offer to ESPN if negotiations did not result in a new ESPN agreement and to make a re-offer to ESPN if a third party offered to broadcast League events, which re-offer would have been on the same terms as those of the third party's offer. TRAC could terminate the agreement with ESPN either upon ESPN making material changes to its broadcast schedule or in the first year of the final renewal period upon payment of a $30 million termination fee to ESPN. Under the contract, the Company would have been required to make the following minimum payments:

2003	$ 375,000
2004	10,285,000
2005	10,640,000
Total minimum contract payments	$ 21,300,000

Management is of the opinion that this agreement was terminated without future liability to the Company when racing operations were discontinued.

SALES PROVIDER AGREEMENT FOR SPONSORSHIP OPPORTUNITIES - In April 2003, TRAC entered into an agreement with Raycom Sports ("Raycom") pursuant to which Raycom became the exclusive sales provider of all TRAC sponsorship opportunities including, media packages, car and team sponsor packages, and TRAC event and league sponsor packages for a period to expire on July 1, 2005. Under this agreement, TRAC was to pay Raycom a sales commission equal to 12.5% of the amount that TRAC actually collected from sponsors. TRAC agreed to pay Raycom a monthly nonrefundable advance against its sales commission in the amount of $14,000. Each sales commission payment was to be reduced by an amount equal to the aggregate amount of such monthly advances not previously netted against sales commissions. Management is of the opinion that this agreement was terminated without future liability to the Company when racing operations were discontinued.

LETTER OF CREDIT FOR OFFICE LEASE - A letter of credit was purchased to guarantee the Company's performance of payment to a third party on their vacated office lease. Restricted cash in the amount of $100,000 is collateral on the letter of credit. The Company vacated the premises upon its decision to terminate its racing operations and has accrued $100,000 in lease settlement cost which is included in accrued expenses on the condensed consolidated balance sheet.

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LOCAL OPERATOR AGREEMENT WITH FORMER CHIEF EXECUTIVE OFFICER - On August 25, 2001, the Company entered into an agreement in principal with its former Chief Executive Officer under which the former Chief Executive Officer would become the local operator of a market. The agreement stated that the cost would be $100,000 plus the cost of the nine racing cars and three haulers to obtain the operating rights for the team, which was substantially less than amounts anticipated to be paid by other local operators. Under the agreement, the $100,000 was to be kept in an escrow account. The funds are not currently escrowed and the $100,000 is included in amounts payable to related parties on the condensed consolidated balance sheet.

NOTE 7--RELATED PARTIES

The Company has received loans and advances, principally for services, from certain individuals considered to be related parties. The amount due to these parties is as follows:

William Miller, former CEO	$ 127,888
Robert Wussler, former Chairman of the Board of Directors	29,167
G. David Gordon, attorney, creditor and stockholder	89,850
Unpaid director fees	90,000
Total	$ 336,905

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The Company has been in the development stage since its inception (May 15, 2001), and has not established sources of revenue sufficient to fund the development of business and pay operating expenses, resulting in a net loss of $15,265,769 from inception through March 31, 2004. Accordingly, on August 26, 2003, the Board of Directors of the Company unanimously approved a plan to immediately discontinue its racing operation. Since August 26, 2003, the Company has been attempting to find a suitable acquisition candidate.

The Company will attempt to locate and negotiate with a business entity for a merger of that business into the Company. In certain instances, a target business may wish to become a subsidiary of the Company or may wish to contribute assets to the Company rather than merge. No assurances can be given that the Company will be successful in locating or negotiating with any target business.

Management believes that there are perceived benefits to being a reporting company with a class of publicly traded securities. These are commonly thought to include (1) the ability to use registered securities to make acquisition of assets or businesses; (2) increased visibility in the financial community; (3) the facilitation of borrowing from financial institutions; (4) improved trading efficiency; (5) shareholder liquidity; (6) greater ease in subsequently raising capital; (7) compensation of key employees through stock options; (8) enhanced corporate image; and (9) a presence in the United States capital market.

A business entity, if any, which may be interested in a business combination with the Company may include (1) a company for which a primary purpose of becoming public is the use of its securities for the acquisition of assets or businesses; (2) a company which is unable to find an underwriter of its securities or is unable to find an underwriter of securities on terms acceptable to it; (3) a company which wishes to become public with less dilution of its common stock than would occur normally upon an underwriting; (4) a company which believes that it will be able to obtain investment capital on more favorable terms after it has become public; (5) a foreign company which may wish an initial entry into the United States securities market; (6) a special situation company, such as a company seeking a public market to satisfy redemption requirements under a qualified Employee Stock Option Plan; or (7) a company seeking one or more of the other perceived benefits of becoming a public company.

Management is actively engaged in seeking a qualified private company as a candidate for a business combination. The Company is authorized to enter into a definitive agreement with a wide variety of private businesses without limitation as to their industry or revenues. It is not possible at this time to predict with which private company, if any, the Company will enter into a definitive agreement or what will be the industry, operating history, revenues, future prospects or other characteristics of that company.

The Company may seek a business opportunity with entities which have recently commenced operations, or which wish to utilize the public marketplace in order to raise additional capital in order to expand into new products or markets, to develop a new product or service, or for other corporate purposes. The Company may acquire assets and establish wholly owned subsidiaries in various businesses or acquire existing businesses as subsidiaries.

Management of the Company, which in all likelihood will not be experienced in matters relating to the business of a target business, will rely upon its own efforts in accomplishing the business purposes of the Company. Outside consultants or advisors may be utilized by the Company to assist in the search for qualified target companies. If the Company does retain such an outside consultant or advisor, any cash fee earned by such person will need to be assumed by the target business, as the Company has limited cash assets with which to pay such obligation.

The analysis of new business opportunities will be undertaken by, or under the supervision of, the officers and directors of the Company, who are not professional business analysts. In analyzing prospective business opportunities, management may consider such matters as the available technical, financial and managerial resources; working capital and other financial requirements; history of operations, if any; prospects for the future; nature of present and expected competition; the quality and experience of management services which may be available and the depth of that management; the potential for further research, development, or exploration; specific risk factors not now foreseeable but which then may be anticipated to impact the proposed activities of the Company; the potential for growth or expansion; the potential for profit; the perceived public recognition or acceptance of products, services, or trades; name identification; and other relevant factors.

Management does not have the capacity to conduct as extensive an investigation of a target business as might be undertaken by a venture capital fund or similar institution. As a result, management may elect to merge with a target business that has one or more undiscovered shortcomings and may, if given the choice to select among target businesses, fail to enter into an agreement with the most investment-worthy target business.

Following a business combination, the Company may benefit from the services of others in regard to accounting, legal services, underwritings and corporate public relations. If requested by a target business, management may recommend one or more underwriters, financial advisors, accountants, public relations firms or other consultants to provide such services.

A potential target business may have an agreement with a consultant or advisor providing that services of the consultant or advisor be continued after any business combination. Additionally, a target business may be presented to the Company only on the condition that the services of a consultant or advisor be continued after a merger or acquisition. Such pre-existing agreements of target businesses for the continuation of the services of attorneys, accountants, advisors or consultants could be a factor in the selection of a target business.

In implementing a structure for a particular business acquisition, the Company may become a party to a merger, consolidation, reorganization, joint venture, or licensing agreement with another corporation or entity. It may also acquire stock or assets of an existing business. On the consummation of a transaction, it is likely that the present management and shareholders of the Company will no longer be in control of the Company. In addition, it is likely that the Company's officers and directors will, as part of the terms of the acquisition transaction, resign and be replaced by one or more new officers and directors.

It is anticipated that any securities issued in any such reorganization would be issued in reliance upon exemption from registration under applicable federal and state securities laws. In some circumstances, however, as a negotiated element of its transaction, the Company may agree to register all or a part of such securities immediately after the transaction is consummated or at specified times thereafter. If such registration occurs, of which there can be no assurance, it will be undertaken by the surviving entity after the Company has entered into an agreement for a business combination or has consummated a business combination and the Company is no longer considered a blank check company. The issuance of additional securities and their potential sale into any trading market which may develop in the Company's securities may depress the market value of the Company's securities in the future if such a market develops, of which there is no assurance.

While the terms of a business transaction to which the Company may be a party cannot be predicted, it is expected that the parties to the business transaction will desire to avoid the creation of a taxable event and thereby structure the acquisition in a tax-free reorganization under Sections 351 or 368 of the Internal Revenue Code of 1986, as amended.

With respect to any merger or acquisition negotiations with a target business, management expects to focus on the percentage of the Company which target business shareholders would acquire in exchange for their shareholdings in the target business. Depending upon, among other things, the target business' assets and liabilities, the Company's shareholders will in all likelihood hold a substantially lesser percentage ownership interest in the Company following any merger or acquisition. Any merger or acquisition effected by the Company can be expected to have a significant dilutive effect on the percentage of shares held by the Company's shareholders at such time.

No assurances can be given that the Company will be able to enter into a business combination, as to the terms of a business combination, or as to the nature of the target business.

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As of the date hereof, management has not made any final decision concerning or entered into any agreements for a business combination. When any such agreement is reached or other material fact occurs, the Company will file notice of such agreement or fact with the Securities and Exchange Commission on Form 8-K. Persons reading this Form 10-QSB are advised to determine if the Company has subsequently filed a Form 8-K.

The Company anticipates that the selection of a business opportunity in which to participate will be complex and without certainty of success. Management believes (but has not conducted any research to confirm) that there are numerous firms seeking the perceived benefits of a publicly registered corporation. Such perceived benefits may include facilitating or improving the terms on which additional equity financing may be sought, providing liquidity for incentive stock options or similar benefits to key employees, increasing the opportunity to use securities for acquisitions, and providing liquidity for shareholders and other factors. Business opportunities may be available in many different industries and at various stages of development, all of which will make the task of comparative investigation and analysis of such business opportunities extremely difficult and complex.

GOING CONCERN FACTORS--LIQUIDITY

The Company has been in the development stage since its inception (May 15, 2001), and has not established sources of revenue sufficient to fund the development of business and pay operating expenses, resulting in a net loss of $15,265,769 from inception through March 31, 2004. The Company has ceased its plans to begin a racing league and all operations have been discontinued. In addition, current liabilities of the Company exceed their assets by approximately $3,680,000 and their convertible promissory notes payable obligations are in default. These conditions raise substantial doubt about the Company's ability to continue as a going concern. These condensed consolidated financial statements do not include any adjustments that may result from the outcome of these uncertainties.

Since August 26, 2003, the Company has attempted to locate and negotiate with a business entity for a merger of that business into the Company. There can be no assurance that the Company will be able to locate a suitable acquisition candidate before it exhausts its cash reserves.

DISCONTINUED OPERATIONS

The Company has been in the development stage since its inception (May 15, 2001), and has not established sources of revenue sufficient to fund the development of business and pay operating expenses, resulting in a net loss of $15,265,769 from inception through March 31, 2004. Accordingly, on August 26, 2003, the Board of Directors of the Company unanimously approved a plan to immediately discontinue its racing operation. While the Company does not expect any additional liability, the following agreements were in place when the Company discontinued its racing operation:

RACING CAR DESIGN AND CONSTRUCTION AGREEMENT - On October 22, 2001, TRAC entered into a Racing Car Design and Construction Agreement with Riley & Scott Race Car Engineering ("Riley & Scott"). The agreement required payments aggregating $1,515,000 during Phase I, which was 23 weeks, and included design, tooling, prototype construction and aero tooling. Phase II of the agreement commenced after completion of Phase I and was planned to be completed in 58 weeks. Phase II was based upon production of 100 racing cars, at a cost of approximately $110,000 each, plus the cost of engines. The agreement also provided for the contractor to be the sole provider of most repair service. Phase I of the agreement was completed during April 2002, and Phase II of the agreement commenced in April 2002. In August 2002, TRAC and Riley & Scott agreed upon a revised schedule based on the delay of the initial race season to 2004. This revised schedule required a $500,000 payment prior to August 31, 2002, and subsequent monthly payments of $50,000 through March 31, 2003. Phase II of the agreement was placed on hold due to TRAC not meeting the required payment schedule. At September 30, 2003, TRAC had incurred and paid in Phase II total costs of $2,545,781.

The agreement terms included that upon temporary cessation or early termination of the agreement, Riley & Scott shall have all rights and title to all tangible and intangible Phase I products and components, all racing cars, components, vendored components and spares ("Post Termination Inventory") then in its possession. When the agreement was terminated, Riley & Scott had possession of all Post Termination Inventory. Riley & Scott may sell all or part of the Post Termination Inventory in any arms length transaction in a bona fide transaction to the buyer offering the highest price. In the event that the amount realized in any such sale is less than the total amount due as of the termination date, Riley & Scott shall be entitled to money damages equal to the difference between the net proceeds of the sale and the full amount due as of the termination date plus penalties to include attorney's fees, interest on delinquent amounts, storage fees, insurance, broker's fees, and advertising expenses. In the event that the sales price of the Post Termination Inventory exceeds Riley & Scott's cost and penalties, TRAC would receive 75% of the excess.

Management of the Company has determined that the Company would be unlikely to recover anything from the ultimate sale by Riley & Scott. Accordingly, the related assets have been considered fully impaired. Management does not believe the Company has any remaining liability to Riley & Scott.

TEAM SALES BROKERAGE AGREEMENT - In June 2002, TRAC engaged Moag & Company to be the exclusive broker of all team sales for a one-year term, and in June 2003, TRAC and Moag & Company amended and restated their agreement to extend the term of the agreement through April 16, 2004 (the "Moag Agreement"). TRAC was attempting, through Moag & Company, to sell at least six teams for its inaugural race season of 2004. Under the Moag Agreement, TRAC paid an initial fee of $25,000 and would have paid to Moag & Company upon each sale of a team a cash fee of $400,000 and warrants to purchase $200,000 of common stock, with an exercise price per share equal to the greater of $1.00 or the ten-day average closing price for the common stock ("Moag Warrants"). The Moag Warrants were to be for a seven-year term and become exercisable in equal installments over the first four years they would have been outstanding. Management is of the opinion that this agreement was terminated without future liability when racing operations were discontinued.

BROADCASTING AGREEMENT - In April 2003, the Company entered into an agreement with ESPN, Inc. and ESPN Productions, Inc. (together, "ESPN"), pursuant to which ESPN was to provide for the live broadcasting of at least 13 two-hour League events and produce these television events for the 2004 and 2005 racing seasons (the "ESPN Agreement"). TRAC, subject to ESPN approvals, had the right to sell national television advertising (16 units per hour per event), billboard and signage advertising and sponsorships. The ESPN Agreement required TRAC to pay expected production fees ("Production Fees") of $525,000 per event in 2004 and $550,000 per event in 2005, with 6% annual increases thereafter during successive contract renewal periods, and an initial Production Fee of $375,000 payable in October 2003 for animation, graphics, music and track surveys, with $30,000 each year thereafter for upgrades. TRAC would also have paid ESPN consideration for broadcasting all TRAC racing league ("League") events on a per event basis ("Broadcast Consideration") in the 2004 and 2005 seasons aggregating to $3,460,000 each year, with increases of 5% each year thereafter. The ESPN Agreement was to cover the 2004 and 2005 League seasons, with ESPN having successive options to renew the agreement, first, through the 2007 season, second, through the 2009 season and finally, through the 2015 season. Before the expiration of the ESPN Agreement, TRAC would have been required to negotiate exclusively with ESPN for sixty days for broadcast rights, to make an offer to ESPN if negotiations did not result in a new ESPN agreement and to make a re-offer to ESPN if a third party offered to broadcast League events, which re-offer would have been on the same terms as those of the third party's offer. TRAC could terminate the agreement with ESPN either upon ESPN making material changes to its broadcast schedule or in the first year of the final renewal period upon payment of a $30 million termination fee to ESPN. Under the contract, the Company would have been required to make the following minimum payments:

2003	$	375,000
2004		10,285,000
2005		10,640,000
Total minimum contract payments	$	21,300,000

Management is of the opinion that this agreement was terminated without future liability to the Company when racing operations were discontinued.

SALES PROVIDER AGREEMENT FOR SPONSORSHIP OPPORTUNITIES - In April 2003, TRAC entered into an agreement with Raycom Sports ("Raycom") pursuant to which Raycom became the exclusive sales provider of all TRAC sponsorship opportunities including, media packages, car and team sponsor packages, and TRAC event and league sponsor packages for a period to expire on July 1, 2005. Under this agreement, TRAC was to pay Raycom a sales commission equal to 12.5% of the amount that TRAC actually collected from sponsors. TRAC agreed to pay Raycom a monthly nonrefundable advance against its sales commission in the amount of $14,000. Each sales commission payment was to be reduced by an amount equal to the aggregate amount of such monthly advances not previously netted against sales commissions. Management is of the opinion that this agreement was terminated without future liability to the Company when racing operations were discontinued.

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LETTER OF CREDIT FOR OFFICE LEASE - A letter of credit was purchased to guarantee the Company's performance of payment to a third party on their vacated office lease. Restricted cash in the amount of $100,000 is collateral on the letter of credit. The Company vacated the premises upon its decision to terminate its racing operations and has accrued $100,000 in lease settlement cost which is included in accrued expenses on the condensed consolidated balance sheet.

LOCAL OPERATOR AGREEMENT WITH FORMER CHIEF EXECUTIVE OFFICER - On August 25, 2001, the Company entered into an agreement in principal with its former Chief Executive Officer under which the former Chief Executive Officer would become the local operator of a market. The agreement stated that the cost would be $100,000 plus the cost of the nine racing cars and three haulers to obtain the operating rights for the team, which was substantially less than amounts anticipated to be paid by other local operators. Under the agreement, the $100,000 was to be kept in an escrow account. The funds are not currently escrowed and the $100,000 is included in amounts payable to related parties on the condensed consolidated balance sheet.

CURRENT OPERATIONS

The Company had two employees until March 31, 2004, and is completing the wind-down of the racing business. Certain shareholders and creditors of the Company are evaluating other business opportunities. Any new business would require raising additional capital and would probably result in a substantial dilution of existing stockholders.

ASSET IMPAIRMENT

As a part of the evaluation of the assets of the Company upon discontinuing its operations, the following assets were considered to be fully impaired based upon management's expectation that they had no future value. These amounts have been recorded as impairment losses and were included in the loss from discontinued operations during the quarter ended September 30, 2003.

Race car designs and manufacturing equipment	$ 1,673,400
Production contract payments	2,545,781
Goodwill	2,810,627
Total	$ 7,029,808

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ITEM 3. CONTROLS AND PROCEDURES

The Company discontinued operations on August 26, 2003, and subsequently terminated the majority of its employees. A third-party consultant was retained to communicate to management the disclosures required by reports that are filed under the Exchange Act.

(a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that are filed under the Exchange Act is accumulated and communicated to management, including the principal executive officer, as appropriate to allow timely decisions regarding required disclosure. Under the supervision of and with the participation of management, including the principal executive officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of March 31, 2004, and, based on its evaluation, our principal executive officer has concluded that these controls and procedures are effective.

(b) Changes in Internal Controls

Other than as discussed above, there have been no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation described above, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II--OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits--

Exhibit 31.1	Certification pursuant to 18 U.S.C. Section 1350 Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification pursuant to 18 U.S.C. Section 1350 Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K--

None.

SIGNATURES

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

TEAM SPORTS ENTERTAINMENT, INC.

May 5, 2004

BY: /S/ TERRY HANSON

Terry Hanson, President, Acting CEO, and principal financial and accounting officer