

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

TEAM SPORTS ENTERTAINMENT INC
Form 10QSB
August 20, 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: JUNE 30, 2004

Commission File Number: 0-23100

TEAM SPORTS ENTERTAINMENT, INC.

(Exact name of small business issuer as specified in its charter)

DELAWARE
(State of Incorporation)

22-2649848
(IRS Employer ID No)

3930 GLADE ROAD, #108-380, COLLEYVILLE, TEXAS 76034
(Address of principal executive office)

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

(817) 675-4319
(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 No .

The number of shares outstanding of registrant's common stock, par value \$.0001 per share, as of July 31, 2004 was 63,782,412.

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

TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY
INDEX

| | Page |
|---|------|
| | ---- |
| PART I FINANCIAL INFORMATION (Unaudited) | |
| Item 1. Condensed Consolidated Balance Sheet as of June 30, 2004 | 3 |
| Condensed Consolidated Statements of Operations for the three months ended June 30, 2004 and 2003 | 4 |

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

| | | |
|---------|--|-------|
| | Condensed Consolidated Statements of Operations for the six months ended June 30, 2004 and 2003, and the period from inception (May 15, 2001), through June 30, 2004 | 5 |
| | Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2004 and 2003, and the period from inception (May 15, 2001), through June 30, 2004 | 6 |
| | Notes to Condensed Consolidated Financial Statements | 7-12 |
| Item 2. | Management's Discussion and Analysis or Plan of Operation | 13-17 |
| Item 3. | Controls and Procedures | 18 |
| PART II | OTHER INFORMATION | 19-21 |

2

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

CONDENSED CONSOLIDATED BALANCE SHEET
JUNE 30, 2004
(UNAUDITED)

ASSETS

CURRENT ASSETS

| | | |
|---------------------------|----|-------|
| Cash and cash equivalents | \$ | 1,322 |
| | | ----- |
| Total assets | \$ | 1,322 |
| | | ===== |

LIABILITIES AND STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES

| | | |
|------------------------------------|----|-----------|
| Accounts payable | \$ | 41,923 |
| Accrued expenses | | 18,509 |
| Amounts payable to related parties | | 336,905 |
| Accrued interest payable | | 367,403 |
| Convertible promissory notes | | 3,035,250 |
| | | ----- |
| Total liabilities | | 3,799,990 |
| | | ----- |

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 | | (19,679,664) |
| | | ----- |
| Total stockholders' deficit | | (3,798,668) |
| | | ----- |
| Total liabilities and stockholders' deficit | \$ | 1,322 |
| | | ===== |

See accompanying notes to condensed consolidated financial statements.

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

3

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2004 AND 2003

(UNAUDITED)

| | THREE MONTHS ENDED JUNE 30, | |
|--|--------------------------------|--------------|
| | 2004 | 2003 |
| | ----- | ----- |
| DISCONTINUED OPERATIONS | | |
| Loss from discontinued operations | \$ (118,542) | \$ (542,904) |
| Income tax benefit | -- | -- |
| | ----- | ----- |
| NET LOSS FROM DISCONTINUED OPERATIONS | \$ (118,542) | \$ (542,904) |
| | ===== | ===== |
| NET LOSS PER SHARE, BASIC AND DILUTED, FROM DISCONTINUED OPERATIONS | \$ (0.00) | \$ (0.01) |
| | ===== | ===== |
| WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED | 63,782,412 | 63,476,312 |
| | ===== | ===== |

See accompanying notes to condensed consolidated financial statements.

4

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2004 AND 2003, AND THE PERIOD
FROM INCEPTION (MAY 15, 2001), THROUGH JUNE 30, 2004
(UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, | | FROM INCEPTION (5/15/2001) THROUGH JUNE 30, 2004 |
|---------------------------------------|------------------------------|----------------|--|
| | 2004 | 2003 | |
| | ----- | ----- | ----- |
| DISCONTINUED OPERATIONS | | | |
| Loss from discontinued operations | \$ (330,290) | \$ (1,007,267) | \$ (15,384,311) |
| Income tax benefit | -- | -- | -- |
| | ----- | ----- | ----- |
| NET LOSS FROM DISCONTINUED OPERATIONS | \$ (330,290) | \$ (1,007,267) | \$ (15,384,311) |

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

| | ===== | ===== | ===== |
|---|------------|------------|------------|
| NET LOSS PER SHARE, BASIC AND DILUTED, FROM DISCONTINUED OPERATIONS | \$ (0.01) | \$ (0.02) | \$ (0.24) |
| WEIGHTED AVERAGE SHARES OUTSTANDING, BASIC AND DILUTED | 63,782,412 | 63,476,312 | 63,072,850 |

See accompanying notes to condensed consolidated financial statements.

5

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2004 AND 2003, AND THE PERIOD
FROM INCEPTION (MAY 15, 2001), THROUGH JUNE 30, 2004
(UNAUDITED)

| | SIX MONTHS ENDED JUNE 30, | | FROM INCEPTION (5/15/2001) THROUGH JUNE 30, 2004 |
|--|------------------------------|----------------|--|
| | 2004 | 2003 | |
| | ----- | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net loss | \$ (330,290) | \$ (1,007,267) | \$ (15,384,300) |
| Loss from discontinued operations | (330,290) | (1,007,267) | (15,384,300) |
| | ----- | ----- | ----- |
| Loss from continuing operations | -- | -- | -- |
| Net cash used in discontinued operations | (87,346) | (287,517) | (9,381,200) |
| | ----- | ----- | ----- |
| Net cash used in operations | (87,346) | (287,517) | (9,381,200) |
| | ----- | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Net cash used in discontinued operations | -- | -- | (1,583,600) |
| | ----- | ----- | ----- |
| Net cash used in investing activities | -- | -- | (1,583,600) |
| | ----- | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net cash from discontinued operations | -- | -- | 10,966,200 |
| | ----- | ----- | ----- |
| Net cash provided by financing activities | -- | -- | 10,966,200 |
| | ----- | ----- | ----- |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (87,346) | (287,517) | 1,300,000 |
| CASH AND CASH EQUIVALENTS, beginning of period | 88,668 | 650,305 | |
| | ----- | ----- | ----- |
| CASH AND CASH EQUIVALENTS, end of period | \$ 1,322 | \$ 362,788 | \$ 1,300,000 |
| | ===== | ===== | ===== |

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

See accompanying notes to condensed consolidated financial statements.

6

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.

7

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

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 \$15,384,311 from inception through June 30, 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 \$3,799,000 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 \$15,384,311 from inception through June 30, 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.

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.

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

| | |
|--|--------------|
| 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.

9

SFAS No. 123 pro forma numbers are as follows for the three and six months ended June 30, 2004 and 2003, and for the period from inception (May 15, 2001) through June 30, 2004:

Three Months Ended June 30, 2004 and 2003

| | June 30, 2004 | 2003 |
|--|------------------|--------------|
| | ----- | ----- |
| Net loss from discontinued operations, as reported | \$ (118,542) | \$ (542,904) |
| Add: Stock-based employee compensation expense determined under fair value based method for all awards | -- | (107,409) |
| Deduct: Stock-based employee compensation included in reported net loss | -- | -- |
| | ----- | ----- |
| Pro forma net loss | \$ (118,542) | \$ (650,313) |
| | ===== | ===== |
| Basic and diluted net loss per share: | | |
| Pro forma | \$ (.00) | \$ (.01) |
| As reported | \$ (.00) | \$ (.01) |

Six Months Ended June 30, 2004 and 2003

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

| | June 30, | | From inception (May 15, 2001 through June 30, 2004 |
|--|--------------|----------------|---|
| | 2004 | 2003 | |
| | ----- | ----- | ----- |
| Net loss from discontinued operations, as reported | \$ (330,290) | \$ (1,007,267) | \$ (15,384,311) |
| Add: Stock-based employee compensation expense determined under fair value based method for all awards | -- | (214,818) | (4,047,994) |
| Deduct: Stock-based employee compensation included in reported net loss | -- | -- | -- |
| | ----- | ----- | ----- |
| Pro forma net loss | \$ (330,290) | \$ (1,222,085) | \$ (19,432,305) |
| | ===== | ===== | ===== |
| Basic and diluted net loss per share: | | | |
| Pro forma | \$ (.01) | \$ (.02) | \$ (.31) |
| As reported | \$ (.01) | \$ (.02) | \$ (.24) |

10

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

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

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 was 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 June 30, 2004, the Company owed accrued interest on the notes of \$367,403 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.

11

NOTE 6--COMMITMENTS AND CONTINGENCIES

On August 26, 2003, when the Board of Directors of the Company discontinued racing operations, the Company was a party to the following agreements:

- o Racing Car Design and Construction Agreement
- o Team Sales Brokerage Agreement
- o Broadcasting Agreement
- o Sales Provider Agreement for Sponsorship Opportunities
- o Office Lease
- o Local Operator Agreement with Former Chief Executive Officer

Management of the Company does not believe the Company has any remaining liability under these agreements. Additional detail regarding these agreements can be found in the Company's Form 10-KSB for the year ended December 31, 2003.

During the three month period ended June 30, 2004, the landlord of the office lease, which the Company vacated at the end of last year, drew \$100,000 on the letter of credit which had secured payment on the lease. As a result, the \$100,000 in restricted cash, which secured the letter of credit, was paid.

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:

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

| | |
|---|------------|
| 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 |
| | ===== |

NOTE 8--LEGAL

On May 3, 2004, in the Chancery Court of the State of Delaware, five shareholders, including former officers/directors of the Company, filed suit against the Company's former Directors, Terry Washburn and Terry Hansen. The suit alleges breach of fiduciary duty, mismanagement, wrongful termination and conversion. The Company believes this is a retaliation suit by Pritchett and Miller, two of the plaintiffs, because of the legal proceeding brought against each of them in Atlanta, Georgia. The Company has filed a motion to dismiss as a result of the pending suit in Atlanta, Georgia.

12

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 \$15,384,311 from inception through June 30, 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

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

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.

13

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

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

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.

14

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.

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.

15

The Company anticipates that the selection of a business opportunity in which to participate will be complex and without certainty of success. Management

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

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 \$15,384,311 from inception through June 30, 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 \$3,799,000 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.

On May 3, 2004, in the Chancery Court of the State of Delaware, five shareholders, including former officers/directors of the Company, filed suit against the Company's former Directors, Terry Washburn and Terry Hansen. The suit alleges breach of fiduciary duty, mismanagement, wrongful termination and conversion. The Company believes this is a retaliation suit by Pritchett and Miller, two of the plaintiffs, because of the legal proceeding brought against each of them in Atlanta, Georgia. The Company has filed a motion to dismiss as a result of the pending suit in Atlanta, Georgia.

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 \$15,384,311 from inception through June 30, 2004. On August 26, 2003, when the Board of Directors of the Company discontinued racing operations, the Company was a party to the following agreements:

16

- o Racing Car Design and Construction Agreement
- o Team Sales Brokerage Agreement
- o Broadcasting Agreement
- o Sales Provider Agreement for Sponsorship Opportunities
- o Office Lease
- o Local Operator Agreement with Former Chief Executive Officer

Management of the Company does not believe the Company has any remaining liability under these agreements. Additional detail regarding these agreements can be found in the Company's Form 10-KSB for the year ended December 31, 2003.

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

During the three month period ended June 30, 2004, the landlord of the office lease, which the Company vacated at the end of last year, drew \$100,000 on the letter of credit which had secured payment on the lease. As a result, the \$100,000 in restricted cash, which secured the letter of credit, was paid.

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 |
| | ===== |

17

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 June 30, 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 1. LEGAL PROCEEDINGS

On May 3, 2004, in the Chancery Court of the State of Delaware, five shareholders, including former officers/directors of the Company, filed suit against the Company's former Directors, Terry Washburn and Terry Hansen. The suit alleges breach of fiduciary duty, mismanagement, wrongful termination and conversion. The Company believes this is a retaliation suit by Pritchett and Miller, two of the plaintiffs, because of the legal proceeding brought against each of them in Atlanta, Georgia. The Company has filed a motion to dismiss as a result of the pending suit in Atlanta, Georgia.

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.

August 19, 2004

By: /s/ Terry Hanson

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