

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

TEAM SPORTS ENTERTAINMENT INC  
Form 10QSB  
November 14, 2002

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: September 30, 2002

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)

13801 Reese Blvd West, Suite 150, 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  No .

The number of shares outstanding of registrant's common stock, par value \$.0001 per share, as of September 30, 2002 was 62,568,312.

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

1

TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY

INDEX

Part I. Unaudited Financial Information

## Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

Item 1. Condensed Consolidated:	
Balance Sheet - September 30, 2002 .....	
Statements of Operations - .....	
Three and Nine Months Ended September 30, 2002 and 2001 and Development Stage, from inception (May 15, 2001), through September 30, 2002	
Statement of Stockholders' Equity - .....	
Nine Months ended September 30, 2002	
Statements of Cash Flows - .....	
Nine Months Ended September 30, 2002 and 2001 and Development Stage, from inception (May 15, 2001), through September 30, 2002	
Notes to Financial Statements - .....	
Nine Months ended September 30, 2002 and 2001	
Item 2. Managements Discussion and Analysis of Plan of Operation	
Item 3. Controls and Procedures.....	
Part II. Other Information.....	

2

### TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheet  
September 30, 2002  
(Unaudited)

#### Assets

##### Current assets

Cash and cash equivalents .....	\$ 888,641
Marketable equity securities .....	22,857
Inventory .....	2,268,125
Prepaid expenses and other assets .....	229,108

Total current assets .....

3,408,731

##### Property and equipment:

Race car designs and manufacturing equipment .....	1,673,400
Office furniture and computer equipment .....	154,274

1,827,674

Less accumulated depreciation .....

(26,306)

Net property and equipment .....

1,801,368

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

Goodwill, net .....	2,810,627	
		-----
	\$ 8,020,726	=====
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses .....	\$ 132,810	
Current portion of capital lease payable .....	36,070	
Convertible promisory notes .....	1,613,000	
Deferred revenue .....	100,000	
		-----
Total current liabilities .....	1,881,880	
Stockholders' equity		
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 and outstanding 62,568,312 shares ....	6,257	
Paid-in capital .....	15,571,214	
Unissued common stock; 645,200 shares	161,300	
Accumulated deficit .....	(9,599,925)	
		-----
Total stockholders' equity .....	6,138,846	
		-----
	\$ 8,020,726	=====

See accompanying notes to condensed consolidated financial statements.

TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Operations  
 Three and Nine Months Ended September 30, 2002 and 2001 and Development Stage  
 from Inception (May 15, 2001), through September 30, 2002  
 (Unaudited)

	Three Months Ended Sept. 30, 2002	2001	Nine Months Ended Sep 2002	2001
Sales and revenues .....	\$ --	\$ --	\$ --	\$ 28
Cost of goods sold .....	--	--	--	9
	-----	-----	-----	-----
Gross profit .....	--	--	--	18
Selling, general and administrative				

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

expense .....	590,108	913,606	2,846,519	1,350
	-----	-----	-----	-----
Loss from operations .....	(590,108)	(913,606)	(2,846,519)	(1,331)
Other income (expense):				
Interest and other income .....	937	77,883	13,613	108
Interest expense .....	(23,422)	(686)	(29,570)	
Unrealized gain (loss) on marketable equity securities .....	(4,285)	(36,000)	(21,143)	32
	-----	-----	-----	-----
Total other income .....	(26,770)	41,197	(37,100)	140
	-----	-----	-----	-----
Loss before income taxes and discontinued operations .....	(616,878)	(872,409)	(2,883,619)	(1,191)
Income tax expense .....	--	--	--	
	-----	-----	-----	-----
Loss from continuing operations .....	(616,878)	(872,409)	(2,883,619)	(1,191)
	-----	-----	-----	-----
Discontinued operations:				
Earnings (loss) from operations of discontinued operations .....	--	--	--	(1,380)
	-----	-----	-----	-----
Earnings (loss) from discontinued operations .....	--	--	--	(1,380)
	-----	-----	-----	-----
Net earnings (loss) .....	\$ (616,878)	\$ (872,409)	\$ (2,883,619)	\$ (2,572)
	=====	=====	=====	=====
Net earnings (loss) per share, basic and diluted				
Continuing operations .....	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.01)
Discontinued operations .....	--	--	--	(0.01)
	-----	-----	-----	-----
	\$ (0.01)	\$ (0.01)	\$ (0.05)	\$ (0.01)
	=====	=====	=====	=====
Weighted average shares outstanding				
Basic and diluted .....	62,568,312	61,936,806	62,535,345	46,628
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY

Condensed Consolidated Statement of Stockholders' Equity  
 Nine Months Ended September 30, 2002  
 (Unaudited)

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

	Common Shares	Stock Par Value	Paid-in Capital	Stock Subscription Receivable	Unissu Commo Stoo
Balance, December 31, 2001 .....	62,468,312	\$ 6,247	\$15,533,724	\$ (350,000)	\$
Exercise common stock warrants .	100,000	10	37,490	--	
Collection of stock subscription	--	--	--	350,000	
Unissued common stock .....	--	--	--	--	161
Net loss .....	--	--	--	--	
Balance, September 30, 2002 ....	63,213,512	\$ 6,322	\$15,732,449	\$ --	\$161

See accompanying notes to condensed consolidated financial statements.

5

TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows  
 Nine Months Ended September 30, 2002 and 2001 and Development Stage  
 from Inception (May 15, 2001), through September 30, 2002  
 (Unaudited)

	2002	2001	From i (5/1 th Sept. (N
Cash flows from operating activities			
Net earnings (loss) .....	\$ (2,883,619)	\$ (2,572,163)	\$ (3
Adjustments to reconcile net earnings (loss) to net cash used by operating activities:			
Loss from discontinued operations, net of tax .....	--	1,380,770	
Depreciation and amortization .....	19,238	78,240	
Unrealized loss (gain) from marketable securities .....	21,143	(32,000)	
Common stock issued for services .....	--	15,000	
Change in assets and liabilities (excluding effects of acquisitions):			
Accounts receivable .....	--	225	
Inventory .....	(2,268,125)	7,990	(2
Prepaid expenses and other assets .....	(17,808)	14,696	
Accounts payable and accrued expenses .....	(729,456)	(31,600)	

**Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB**

Deferred revenue .....	100,000	--	
	-----	-----	
Net cash used by operating activities .....	(5,758,627)	(1,138,842)	(5)
	-----	-----	
Cash flows from investing activities			
Collections of notes receivable - officer .....	--	226,331	
Acquisition of Maxx Motorsports, Inc., net of cash acquired	--	(45,213)	
Proceeds from short-term investments .....	--	133,669	
Capital expenditures .....	(2,276)	(65,827)	(1)
	-----	-----	
Net cash provided by (used in) investing activities .....	(2,276)	248,960	(1)
	-----	-----	
Cash flows from financing activities			
Proceeds from exercise of warrants .....	37,500	--	
Proceeds from issuance of common stock .....	--	7,244,993	
Collection of notes receivable .....	350,000	240,000	
Proceeds from convertible promissory notes .....	1,613,000	--	
Funds advanced from parent .....	--	--	7
Repayment of capital lease obligation .....	(26,701)	--	
Funds transferred from (to) discontinued operations .....	--	7,216	
	-----	-----	
Net cash provided by financing activities .....	1,973,799	7,492,209	7
	-----	-----	
Net increase (decrease) in cash and cash equivalents			
from continuing operations .....	(3,787,104)	6,602,327	
Cash and cash equivalents, beginning of period			
from continuing operations .....	4,675,745	--	
	-----	-----	
Cash and cash equivalents, end of period .....	\$ 888,641	\$ 6,602,327	\$
	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

6

TEAM SPORTS ENTERTAINMENT, INC. AND SUBSIDIARY  
Notes to Condensed Consolidated Financial Statements  
Nine Months Ended September 30, 2002 and 2001  
(Unaudited)

**A. ACCOUNTING POLICIES**

The financial statements included in this report have been prepared by Team Sports Entertainment, Inc. (the "Company" or "Team Sports") 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 financial statements have not been audited.

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

## Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

make the information presented not misleading. However, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2001, which is included in the Company's Form 10-KSB for the year ended December 31, 2001. 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.

The consolidated financial statements include the accounts of Team Sports and its wholly owned subsidiary, Maxx Motorsports, Inc. ("Maxx") and its wholly owned subsidiary, Team Racing Auto Circuit, LLC ("TRAC"). All significant intercompany balances and transactions have been eliminated in consolidation. Maxx, through its wholly owned subsidiary, TRAC, plans 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 Maxx and TRAC 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 separate operations of Team Sports are not included as a development stage enterprise. The Company follows the AICPA SOP 98-5, "Reporting on the Costs of Start-Up Activities" in accounting for its start-up activities.

On May 15, 2001, Team Sports changed its name from Logisoft Corp. to Team Sports Entertainment, Inc.

7

On May 15, 2001 the Company acquired all of the common stock of Maxx Motorsports, Inc., a South Carolina corporation, in a tax-free stock exchange for 7,750,000 shares of the Company's common stock. In addition, as a part of this agreement, the Company issued 3,300,000 shares of its common stock in exchange for \$825,000 of Maxx's liabilities. The Liabilities consisted of \$450,000 for cash advances and loans made to Maxx and \$375,000 for consulting fees incurred. In addition, the Company completed the sale of its wholly owned subsidiaries, Logisoft Computer Products Corp. and eStorefronts.net Corp., who created global and localized Internet solutions for both traditional and pure e-business companies, to a group of its shareholders in exchange for 12,000,000 shares of the Company's common stock, which were cancelled. The operations from these business segments have been classified as discontinued operations in the accompanying financial statements.

**INVENTORY.** Inventory consists of the costs incurred on the production phase of the Racing Car Design and Construction Agreement with Riley & Scott Race Car Engineering and other related costs. Costs are stated at the lower of cost or market on a first-in, first-out basis.

**REVENUE.** Recognition of revenue from team operating agreements is deferred until the event occurs and is recognized ratably over the period covered by the agreement.

### B. RECENTLY ADOPTED ACCOUNTING STANDARDS

On January 1, 2002, the Company adopted Statement of Financial

## Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." As a result, the Company stopped recording the amortization of goodwill as a charge to earnings during the first quarter of 2002. In addition, the Company is required to conduct an annual review of goodwill and intangible assets for potential impairment. The Company is in the development stage and accordingly utilized projections from its business plan in order to complete its review and, based upon this review did not have to record a charge to earnings for an impairment of goodwill as a result of these new standards.

Effective January 1, 2002, the Company also adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of." SFAS No. 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets, expands the scope of a discontinued operation to include a component of an entity and eliminates the exemption to consolidation when control over a subsidiary is likely to be temporary. The adoption of this new standard did not have a material impact on the Company's financial position, results of operations or cash flows.

8

### C. INVENTORY AND COMMITMENTS

On October 22, 2001, TRAC entered into a Racing Car Design and Construction Agreement with Riley & Scott Race Car Engineering. 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 provides for the contractor to be the sole provider of most repair service. Phase I of the agreement was completed during March 2002 and Phase II of the agreement commenced in April 2002. At September 30, 2002, the Company had incurred and paid total costs of \$2,268,125, which amount is included in inventory, for cars, engines and associated equipment. TRAC and Riley & Scott are currently developing a revised schedule for Phase II of the agreement as a result of the delay in the initial race season to 2004.

### D. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2002, the Companies had various transactions with related parties, primarily its board members and officers. The following is a summary of those transactions:

Consulting expenses to Directors.	\$166,001
Director fees .....	60,750
Reimbursed aircraft expenses ....	62,891
Deferred revenue for Team Atlanta	100,000



## Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

Payments to William Miller, former CEO 780,000

### E. CONVERTIBLE PROMISSORY NOTES

As of September 30, 2002, Team Sports had issued \$1,613,000 in convertible promissory notes to certain shareholders of the Company. The notes are due August 31, 2003; bear interest at 8% per annum; with interest payable quarterly; are convertible into Team Sports common stock at the rate of \$.20 per share; the note holder will receive a 10% fee which will be payable in common stock at the rate of \$.25 per share; and collateralized by all the assets of the Company. Team Sports will issue 645,200 shares of its common stock in payment of the loan origination fees. The common stock to be issued for the note origination fees and the common stock issuable upon conversion of convertible notes payable is restricted.

### F. UNCERTAINTIES

The primary operating entity of Team Sports will be TRAC, which 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 \$3,609,563 from inception through September 30, 2002. Going forward, management anticipates obtaining the necessary operating capital through the fees payable by Local Operators under operating agreements or by private placement stock sales. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Companies are unable to generate sufficient capital to execute this plan.

9

### G. SUBSEQUENT EVENTS

TRAC is presently negotiating with a national network to televise its races. There are numerous material issues to be resolved in the negotiations and there can be no assurances that an agreement will be reached.

During October 2002 Team Sports received an additional \$657,000 from the issue of convertible promissory notes. The notes are due August 31, 2003; bear interest at 8% per annum; with interest payable quarterly; are convertible into Team Sports common stock at the rate of \$.20 per share; the note holder will receive a 10% fee which will be payable in common stock at the rate of \$.25 per share; and collateralized by all of the assets of the Company. Team Sports will issue 262,800 shares of its common stock in payment of the loan origination fees. The common stock to be issued for the note origination fees and the common stock issuable upon conversion of convertible notes payable is restricted.

10

## Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

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

From time to time, the Company may publish forward-looking statements relative to such matters as anticipated financial performance, business prospects, technological developments and similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. All statements other than statements of historical fact included in this section or elsewhere in this report are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include, but are not limited to, the following: the Company's current liquidity crisis as described below; changes in the economy or in specific customer industry sectors; changes in customer procurement policies and practices; changes in product manufacturer sales policies and practices; the availability of product and labor; changes in operating expenses; the effect of price increases or decreases; the variability and timing of business opportunities including acquisitions, alliances, customer agreements and supplier authorizations; the Company's ability to realize the anticipated benefits of acquisitions and other business strategies; the incurrence of debt and contingent liabilities in connection with acquisitions; changes in accounting policies and practices; the effect of organizational changes within the Company; the emergence of new competitors, including firms with greater financial resources than the Company; adverse state and federal regulation and legislation; and the occurrence of extraordinary events, including natural events and acts of God, fires, floods and accidents.

On May 15, 2001, the Company completed the acquisition of Maxx. Maxx, through its wholly owned subsidiary, TRAC plans to develop, own, operate, and sanction an automotive racing league (the "League") designed to provide content for television and tracks while expanding the existing base of racing fans. TRAC will initially consist of multi-car teams, strategically positioned in major North American television markets located near major motorsport venues. Each team will represent the city or state where it is located. The initial TRAC racing season, planned to start in the second quarter of 2004, will consist of a regular season race schedule, an all-star race, and a Championship Race. TRAC will incorporate the use of aerodynamically similar cars, fuel-injection engines and other innovative competition standards intended to increase parity among the teams without diminishing the entertainment value.

TRAC had originally planned on starting its racing league in the second quarter of 2003. Due to adverse business conditions, signing a definitive television agreement has taken considerably longer than management originally anticipated. As a result, Local Operator sales have been delayed and the Company, along with the aforementioned potential television partner, believes it was best to delay the start of the race league to the second quarter of 2004. TRAC intends to initially enter into Operating Agreements with up to ten third parties (the

"Local Operators") to be identified by TRAC with respect to the local operations of a TRAC racing team but reserves the right to operate one or more teams itself. Each Local Operator will pay a fee to TRAC to obtain the right to operate the team in its market. TRAC also hopes to generate revenues from national television, radio and other media agreements (including rights fees and/or revenue sharing from sales of advertising time), sales of national

## Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

corporate sponsorships for the League and for League events (such as the Championship Race), ticket sales, sales of sponsorships of the teams for the races and license fees from sales of officially licensed merchandise. Finally, TRAC hopes to receive fees from additional operators to obtain the right to operate additional teams that may be organized beyond the original teams ("expansion fees"). In addition to the rights fee payable to TRAC, TRAC expects to require each Local Operator to bear substantially all local expenses of operating the team, including the costs of all personnel necessary to operate the team; it is expected drivers will be employees of TRAC and assigned to the teams. TRAC expects to enter into a lease for each racing venue. TRAC expects to require the Local Operator to be responsible for performing all local operations of the team, including presenting its home races, marketing the team and selling tickets for the races, maintenance and repair of the cars, and payments under the leases for its racing venue. The rights to all local and national revenues will be owned by TRAC but the Local Operators will be entitled to retain all or a significant portion of certain local revenues (e.g., local ticket sales and local sponsorships) and to share in certain national revenues (e.g., television and radio licensing fees, national sponsorship and merchandise licensing revenue) and in the expansion fees paid to TRAC.

TRAC has engaged Moag & Company, a leading sports, media and entertainment investment banking firm, to act as their sole and exclusive agent for sale of the local operating rights for the ten-city racing league. Moag will identify potential ownership groups, advise TRAC concerning those investors and will assist in the negotiations on the sale of operating rights for each city.

Through standardization of racing cars, TRAC hopes to create a racing environment in which each car is capable of winning and the fans will be focused on drivers, race-day strategies and crew performance, rather than technological advantages. We expect that our races will be shortened from the 4-5 hour window of current stock car races to a window that is more consistent with traditional team sports. Our business plan contemplates that cars will be based on silhouettes of popular American sport cars, will be approximately 900 pounds lighter than most current oval-based stock cars and will have considerably more down-force, which should result in better handling, more passing and more intense racing than the other forms of oval-based stock car racing.

TRAC's league format will put emphasis on city/regional affinities and provide a business model not currently present in motorsports. We expect that our marketing and positioning efforts, our competitive standards, and our visually appealing cars will attract a broad audience of sports fans.

Our cars have been designed and developed by Riley & Scott Race Car Engineering as described below, and the prototypes have now been completed. We have not yet formalized Operating Agreements with any team owners, although we are meeting with potential owners. Accordingly, there can be no assurances that our expectations with respect to the League will be met.

12

TRAC has narrowed its list to 26 potential markets. We expect to have 10 markets with teams for the initial race season in 2004. We will select these markets based on factors including: strength of prospective operators, size of television market, type of venue, level of anticipated civic support and national geographic balance. We anticipate making Local Operator announcements beginning in the first or second quarters of 2003. TRAC announced in April 2002 an agreement with Speedway Motorsports to race at five of their facilities. Pending team owner/operator agreements, TRAC's inaugural season should include two events each at Atlanta Motor Speedway, Bristol Motor Speedway, Las Vegas Motor Speedway, Lowe's Motor Speedway in Charlotte and Texas Motor Speedway in Fort Worth. The remaining five locations will be announced when arrangements

## Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

have been completed.

TRAC is currently in discussions seeking a national network to televise its races beginning with the 2004 season.

There can be no assurance that TRAC will be successful in entering into Operating Agreements with 10 Local Operators, in entering into a national television contract on satisfactory terms or in launching in 2004. Management anticipates obtaining the necessary operating capital to complete their business plan through the fees payable by Local Operators under Operating Agreements or by private placement stock sales.

In October 2001, the Company entered into an agreement with one of motorsports' most respected design and manufacturing companies to develop the race cars to be used during TRAC's first season. Riley & Scott Race Car Engineering, the company that has produced championship designs in virtually every major form of motorsports, has designed and plans to manufacture approximately 100 cars at their manufacturing facility in Indianapolis, Indiana. The cars are high-performance, muscle cars designed to race competitively on a variety of oval tracks. The cars have been designed with high safety standards and are distinctively designed for the purpose of creating visual appeal to attract a broader demographic audience to stock car racing. The agreement between TRAC and Riley & Scott required payments aggregating approximately \$1,500,000 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 originally planned to be completed within 58 weeks. Phase II is currently based upon production of 100 racing cars, at a cost of approximately \$110,000 each, plus the cost of engines. TRAC has the right, by notice to Riley & Scott, to reduce the number of cars to be produced during Phase II, but at an increased price per car. The agreement also provides for Riley & Scott to be the sole provider of most major repair services. Because of the revision in the start date from 2003 to 2004 which is the result of unexpected delays in signing a television contract and selling teams and sponsorships, management and Riley & Scott are currently working on a new Phase II schedule in order to have an appropriate number of race cars in the Local Operators' possession by April 2004. Phase I was financed by the Company's cash on hand; Phase II is expected to be funded by cash on hand, additional debt and/or equity financing and fees anticipated to be received under Operating Agreements which are anticipated to be entered into with Local Operators.

13

During March 2002, TRAC completed payment to Riley & Scott for Phase I of the agreement. Prototypes of the three cars successfully completed their first track testing at Indianapolis Raceway Park on March 28-30, 2002 and the prototypes were unveiled to the public on April 24, 2002. Phase II of the agreement commenced during April 2002 and at September 30, 2002, costs aggregating \$2,268,125 for cars and engines had been incurred, paid and included in inventory. TRAC is currently developing a revised schedule with Riley & Scott for the balance of Phase II.

During the nine months ended September 30, 2002, the Company used \$5,758,627 in cash flow in their operating activities; investing activities used \$2,276 in cash flow; and financing activities provided \$1,973,799 in cash flow, resulting in a net decrease in cash of \$3,787,104, leaving a balance in cash of \$888,641 at September 30, 2002. So far this year, TRAC made payments of \$2,268,125 on Phase II of the agreement with Riley & Scott, including payments for engines. The primary source of cash was the \$1,613,000 in convertible promissory note proceeds received in September 2002.

## Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

Selling, general and administrative expense includes a charge for \$480,000 which is the amount the Company had prepaid Mr. William Miller, former Chief Executive Officer, for compensation for the ten month period beginning July 2002. As a result of Mr. Miller's departure from the Company, management is presently evaluating its options to pursue the return of a portion of the prepayment.

The Company has included \$100,000 in deferred revenue relating to the payment by Mr. Miller for the rights to Team Atlanta, which is also being evaluated.

The Company incurred \$29,570 in interest expense during the nine months ended September 30, 2002 as compared to the year earlier period amount of \$686. The increase is primarily the interest on the convertible promissory notes and the related amortization of the loan fee.

The operations of Maxx and TRAC are presented as those of a development stage enterprise, from its inception, May 15, 2001. The separate operations of Team Sports are not included as a development stage enterprise.

### DISCONTINUED OPERATIONS

As a part of the acquisition of Maxx, the Company was required to sell its interest in its wholly owned subsidiaries, LCP and eStorefronts to a group of its shareholders in exchange for 12,000,000 shares of its common stock. This transaction was also completed on May 15, 2001 and the shares were cancelled.

During the nine months ended September 30, 2001, the Company had a loss of \$1,380,770 from discontinued operations.

### Item 3. Controls and Procedures

The Company has established and currently maintains controls and other procedures designed to ensure that material information required to be disclosed in its reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission. In conjunction with the close of each fiscal quarter, the Company conducts an update and a review and evaluation of the effectiveness of the Company's disclosure controls and procedures. In the opinion of the Company's principal executive officer, based upon an evaluation completed within 90 days prior to the filing of this report, the Company's disclosure controls and procedures are sufficiently effective to ensure that any material information relating to the Company is recorded, processed, summarized and reported to its principal officers to allow timely decisions regarding required disclosures.

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

PART II - OTHER INFORMATION

Items 1, 3 and 4 are omitted as they are not required.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

As of September 30, 2002, Team Sports will issue 645,200 shares of its common stock as a loan origination fee in conjunction with the issue of \$1,613,000 in 8% convertible promissory notes. Subsequent to September 30, 2002, Team Sports will issue an additional 262,800 shares of its common stock as loan origination fees for the \$657,000 in 8% convertible promissory notes issued during October 2002. The proceeds from the convertible promissory notes are being used for working capital and to complete the Company's business plan. The small business issuer claimed exemption from registration based upon Section 4(2) of the Securities and Exchange Act of 1933.

ITEM 5. OTHER INFORMATION

Charles Bradshaw became Chief Executive Officer on August 22, 2002. The Company does not currently employ a Chief Financial Officer.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits - 99.1 Certificate Pursuant to 18 U.S.C. Section 1350
- (b) Reports on Form 8-K - Not applicable

SIGNATURE

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

TEAM SPORTS ENTERTAINMENT, INC.

Date: November 12, 2002

By: /s/ Charles Bradshaw

-----  
Charles Bradshaw  
Chief Executive Officer and  
Principal Accounting Officer

CERTIFICATION

I, Charles Bradshaw, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Team Sports Entertainment, Inc.;

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

2. Based on my knowledge, this quarterly report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report; 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as, and for the periods presented in this quarterly report; 4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known to me by others within the Company, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report my conclusions about the effectiveness of the disclosure controls and procedures based on my evaluation as of the Evaluation Date;

5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls;

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

November 12, 2002

/s/ Charles Bradshaw

-----  
Charles Bradshaw  
Chief Executive Officer

Exhibit 99.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

Pursuant to and solely for purposes of, 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002), each of the undersigned hereby certifies in the capacity and on the date indicated below that:

1. The Quarterly Report of Team Sports Entertainment, Inc. (the "Registrant") on Form 10-QSB for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully

Edgar Filing: TEAM SPORTS ENTERTAINMENT INC - Form 10QSB

complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: November 12, 2002

By: /s/Charles Bradshaw

-----

Charles Bradshaw  
Chief Executive Officer