QUINTEK TECHNOLOGIES INC
Form PRER14A
May 05, 2004

SCHEDULE 14A
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]

Check the appropriate box:
[X] Preliminary Proxy Statement [ ] Confidential, for Use of the
Commission Only (as permitted
by Rule 14a-6(e)(2))
[ ] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

QUINTEK TECHNOLOGIES, INC.

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

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Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

May ___, 2004

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Quintek Technologies, Inc. to be held at 10:00 a.m., June 15, 2004, at Holiday Inn, 450 East Harbor Boulevard, Ventura, California 93001.

In connection with the Annual Meeting, enclosed herewith is the Proxy Statement and Proxy. Additionally, enclosed find our Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003. We are requesting your approval of a number of proposals which are very important to the Company's future success. Therefore, whether or not you expect to attend the meeting in person, it is imperative that your shares be voted at the meeting. At your earliest convenience, please complete, date and sign the Proxy and return it in the enclosed, postage-paid envelope furnished for that purpose.

Following the consideration of the proposals by the shareholders, management will present a current report on the activities of the Company. At the meeting, we will welcome your comments on or inquiries about the business of the Company that would be of interest to shareholders generally.

I look forward to seeing you at the Annual Meeting. In the meantime, please feel free to contact me with any questions you may have.

Sincerely,

/s/ Robert Steele
- ----------------------
Robert Steele
Chairman and Chief Executive Officer

QUINTEK TECHNOLOGIES, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 15, 2004

To Our Shareholders:

The Annual Meeting of Shareholders of Quintek Technologies, Inc., a California corporation (the "Company"), will be held at 10:00 a.m., June 15, 2004, at Holiday Inn, 450 East Harbor Boulevard, Ventura, California 93001 for the following purposes:

1. The election of Robert Steele and Andrew Haag as Directors;

2. To act upon a proposal to ratify the appointment of Kabani & Company, Inc., Certified Public Accountants, as the independent public accountants of the Company for fiscal 2004;

3. To act upon an amendment to increase the number of authorized shares of Common Stock to 200,000,000, and to increase the number of authorized shares of Preferred Stock to 50,000,000;

4. To act upon an amendment to authorize the Board of Directors to divide the Preferred Stock into any number of classes or series, fix the designation and number of shares of each such series or class, and alter or determine the rights, preferences, privileges and restrictions of each class or series of Preferred Stock not yet issued;

5. To act upon an amendment to authorize a quorum for any shareholder meeting to be at least one third (1/3) of the shares entitled to vote;

6. To approve and adopt the Quintek Technologies, Inc. 2004 Stock Option Plan; and

7. To transact such other business as may properly come before the Annual Meeting and any and all adjournments thereof.

The Board of Directors has fixed the close of business on Masy 25, 2004 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting and any and all adjournments thereof.

You are cordially invited to attend the meeting in person. Whether or not you expect to attend the meeting in person, please promptly mark, sign and date the enclosed proxy and return it in the envelope provided for that purpose.

By Order of the Board of Directors,

/s/ Robert Steele
- ------------------------
ROBERT STEELE
Chairman and Chief Executive Officer

QUINTEK TECHNOLOGIES, INC.

PROXY STATEMENT

SOLICITATION OF PROXY, REVOCABILITY AND VOTING

GENERAL

The enclosed proxy is solicited on behalf of the Board of Directors of Quintek

Technologies, Inc., a California corporation (the "Company"), for use at the 2004 Annual Meeting of Shareholders (the "Annual Meeting"), to be held at 10:00 a.m., on June 15, 2004.

Only holders of Common Stock of record at the close of business on May 25, 2004, will be entitled to notice of and to vote at the Annual Meeting. Each share of Common Stock is entitled to one vote on all matters to come before the Annual Meeting. On May 25, 2004, the record date for the Annual Meeting, the Company had issued and outstanding 48,884,994 shares of Common Stock, no par value ("Common Stock").

The Company's principal executive offices are located at 537 Constitution Avenue, Suite B, Camarillo, California 93012. The approximate date on which this Proxy Statement and the accompanying proxy are first being sent to shareholders is April 22, 2004.

QUORUM AND VOTING

The presence, in person or by proxy, of the holders of a majority of the votes entitled to be cast by the shareholders entitled to vote generally at the Annual Meeting is necessary to constitute a quorum. Votes withheld for director nominees and abstentions on the other proposals to be considered at the Annual Meeting will be counted in determining whether a quorum has been reached, but the failure to execute and return a proxy will result in a shareholder not being considered present at the meeting. The holders of the Common vote on all matters to be submitted to shareholders at the Annual Meeting. If a quorum is not present at the Annual Meeting, we expect that the Annual Meeting will be adjourned or postponed to solicit additional proxies.

Assuming the presence of a quorum, generally the adoption of a proposal by the shareholders requires the affirmative vote of the holders of at least a majority of all shares casting votes in person or by proxy at the Annual Meeting. Directors are elected by a plurality, and the two nominees who receive the most votes will be elected. Abstentions and broker non-votes will not be taken into account to determine the outcome of the election of directors or the approval of any proposal. Approval of all of the remaining proposals will require the affirmative vote of the holders of at least a majority of all shares casting votes in person or by proxy at the Annual Meeting. Only shares affirmatively voted for a proposal, including properly executed proxies that do not contain voting instructions, will be counted as favorable votes for that proposal. Brokers who hold shares of stock in street name for customers and who indicate on a proxy that the broker does not have discretionary authority to vote those shares as to a particular matter are referred to as broker non-votes. Broker non-votes will have no effect in determining whether a proposal will be adopted at the Annual Meeting although they would be counted as present for purposes of determining the existence of a quorum. Abstentions as to a particular proposal will have the same effect as votes against such proposal.

Page 4

REVOCABILITY OF PROXIES

Shares represented by proxies, if properly signed and returned, will be voted in accordance with the specifications made thereon by the shareholders. Any proxy not specifying to the contrary will be voted in favor of the adoption of all of the proposals referred to in the Notice of Annual Meeting and for the two nominees for Director listed in Item 1 below. A shareholder who signs and returns a proxy may revoke it any time before it is voted by the filing of an

instrument revoking it or a duly executed proxy bearing a later date with the Secretary of the Company. Your mere attendance at the Annual Meeting will not revoke your proxy.

SOLICITATION

The cost of soliciting proxies will be borne by the Company. Such solicitation will be made by mail and may also be made on behalf of the Company by the Company's Directors, officers or employees in person or by telephone, facsimile transmission or telegram.

SECURITY OWNERSHIP

COMMON STOCK

The following table sets forth, as of December 1, 2003, the beneficial ownership of the Common Stock of each of the Company's directors and executive officers and any beneficial owner of more than five percent of the Common Stock, as well as by the Company's directors and executive officers as a group. Except as set forth below, the Company is not aware of any beneficial owner of more than five percent of the Common Stock. Except as otherwise indicated, the Company believes that the beneficial owners of the Common Stock listed below, based on information furnished by such owners, have sole investment and voting power with respect to such shares, subject to community property laws where applicable.

On December 1, 2003, 48,884,994 shares of our common stock were outstanding.

	Shares Owned	
Shareholder	Number	Percent
Robert Steele, President, CEO and Chairman	400,000	0.82%
Andrew Haag, CFO, Director	0	0.00%
Zubair Kazi (3)	4,428,572	9.06%
Kurt Kunz, VP Engineering (1) (2)	924,428	1.89%
All directors as a group (2 persons)	400,000	0.82%

(1) These shares and options are beneficially owned equally by Kurt Kunz, his wife, Teresa, and their children.

(2) Includes warrants to purchase 350,000 shares of restricted common stock at $1.00 per share within 60 days after June 30, 2003

(3) Includes 1,428,572 shares owned by Kazi Management VI, Inc., an affiliate of Mr. Kazi.

EXECUTIVE COMPENSATION

None of our executive officers received a total annual salary and bonus of more than $100,000 for the year ended June 30, 2003. The following table summarizes the yearly compensation of our past and current President for the three years ended June 30, 2003.

Name	Year	Salary	Other Annual Compensation (3)	Restricted Stock Awards	Securitie Underlyin Options
	----------------- Annual Compensation ------------------			---------- Long Term Comp	
Tom Sims President	FY2003 (1)	$19,400	$1,570	--	--
	FY2002	$19,500	$6,106	$ 68,000 (4)	--
	FY2001	$60,000	--	--	--
Robert Steele President	FY2003 (2)	$30,000	$2,500	--	--

Notes:

1) Represents compensation received by Sims while serving as our President from 6/30/02 to 1/31/03.

2) Represents compensation received by Steele while serving as our President from 2/1/03 to 6/30/03.

3) These amounts represent the Company's payments to provide an automobile and health insurance for Mr. Sims and Mr. Steele.

4) This represents an issuance of 200,000 shares of restricted common stock valued at $0.06 per share and 800,000 shares of restricted common stock valued at $0.07 per share to or for the benefit of Tom Sims.

No Stock Options Were Granted in Fiscal 2003

Quintek did not grant any stock options or stock appreciation rights or Long-Term Incentive Plan Awards to its officers or employees, in the fiscal year ended June 30, 2003.

Aggregated 2001 Option Exercises and Year-End Values

The following table summarizes the number and value of all unexercised stock options held by Mr. Sims and Mr. Steele at June 30, 2003. No stock appreciation or similar rights were exercised during or remained outstanding at the end of Fiscal 2003.

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at FY-End (#) Exercisable/Unexercisable	Value of Unexerci Money Options/SAR Exercisab
Tom Sims	0	$0	285,000*/0	$0/$0
Robert Steele	0	$0	0/0	$0/$0

* Includes options and shares granted to Catherine Sims who is the wife of Tom Sims.
** Based on a closing bid price on the OTC Bulletin Board on June 30, 2003.

Page 6

EXECUTIVE EMPLOYMENT AGREEMENTS

On January 31, 2003, the Company entered into an Employment Agreement with Robert Steele to become our President and Chief Executive Officer for a period

of five years ending January 31, 2008, with a salary of $6,000 per month. Mr. Steele's salary remains unchanged until such time as the Company's quarterly gross revenue (as determined by its regular accountants) shall exceed or equal the sum of $300,000. Should this occur, his salary for the following quarter shall be increased to $9,000 per month. At such time as the Company's quarterly gross revenue shall exceed or equal the sum of $600,000, his salary for the following quarter shall be increased to $12,000 per month; and at such time as the Company's quarterly gross revenue shall exceed or equal the sum of $600,000, his salary for the following quarter shall be increased to $12,000 per month; and at such time as the Company's quarterly gross revenue shall exceed or equal the sum of $900,000, his salary for the following quarter shall be increased to $15,000 per month . However, if the quarterly gross revenue decreases below the benchmark levels described, Mr. Steele's salary shall be decreased to the corresponding monthly salary. Mr. Steele receives an automobile allowance of $500 per month and all other benefits provided to other full-time employees. Additionally, he is eligible for an annual bonus based upon the Recast Profits of Quintek over the prior twelve (12) month calendar/fiscal year period. If Quintek's Recast Profit Margin for the prior twelve (12) month calendar/fiscal year period is less than six (6%) percent then he will not receive any bonus; but if it equals or exceeds six (6%) percent, then he will be paid a bonus of three (3%) percent of Recast Profits within thirty (30) days of such year end. For each additional one (1%) percent of Recast Profits over and above six (6%) percent of Recast Profits for the prior twelve (12) month calendar/fiscal year period, he will receive an additional bonus of one (1%) percent of Recast Profits, such additional bonus to be prorated for each additional one (1%) percent in Recast Profit Margin over and above the sum of six (6%) percent of Recast Profit Margin for the prior twelve (12) month calendar/fiscal year period. For example, if at the end of calendar/fiscal year 2004, Quintek's Recast Profits for the prior year amount to $994,200 then Mr. Steele would be paid the sum of $99,552 within thirty (30) days. For the purposes of the agreement, "Executive's Compensation" is defined as Mr. Steele's salary, car allowance and interest paid on Steele's loans (if any) to Quintek, as calculated by Quintek's regular accountant(s). In the Employment Agreement, "Recast Profits" was defined as net profits before interest, taxes, depreciation and amortization (EBITDA), less Executive's Compensation, and "Recast Profit Margin" was defined as the quotient of Recast Profits divided by gross revenue. Mr. Steele received a grant of 1,000,000 shares of Series A Preferred Stock upon execution of the Employment Agreement, and Quintek agreed to sell stock (or grant to Mr. Steele rights to purchase additional shares of common stock) at $0.03 per share such that, including all options or shares previously issued to or purchased by Mr. Steele, he would own, in the aggregate, shares of common stock or rights to purchase shares of common stock representing ten percent (10%) of the current outstanding common stock of Quintek, on a fully-diluted basis after taking into account the issuance of such additional shares to Mr. Steele and assuming the issuance of all other shares subject to currently outstanding options or warrants. The Employment Agreement states that the agreement(s) specifically granting the shares to be purchased by Mr., Steele will have, at minimum, new termination and repurchase provisions, with the termination provisions to be consistent with new termination and repurchase provisions set forth in this Agreement. The agreement(s) also will contain provisions providing Mr., Steele with pre-emptive rights to purchase additional shares of common stock under certain circumstances. Options to Mr., Steele shall vest according to the following schedule: Right to purchase two and a half percent (2.5%) of outstanding common stock, upon the authorization of additional shares by the shareholders of Quintek; assuming that authorization of more shares is approved by the shareholders of the Company, options giving Executive the right to purchase an additional two and a half percent (2.5%) of outstanding common stock at the time of grant, will be granted to executive upon the one (1)

year anniversary of Steele's Employment Agreement for the following three (3) years. In the event of a sale of Quintek, termination of the Employment Agreement by the Company, or any other event that may impede Quintek's ability to fulfill its obligations under the Employment Agreement, all options will be immediately vest. The Employment Agreement shall not be terminated by any merger or consolidation where Quintek is not the consolidated or surviving corporation or by any transfer of all or substantially all of the assets of Quintek. In the event of any such merger or consolidation or transfer of assets, the surviving or resulting corporation or the transferee of the assets of Quintek shall be bound by and shall have the benefit of the provisions of the Employment Agreement, and Quintek shall take all steps necessary to ensure that such corporation or transferee is bound by the provisions of the Employment Agreement.

ITEM 1

ELECTION OF DIRECTORS

(Item 1 on Proxy Card)

The shareholders are being asked to elect two directors, who will comprise the entire Board of Directors of the Company, to serve until the next annual meeting of shareholders or until their successors are duly elected and qualified. All of the nominees are current members of the Board of Directors.

Although the Board of Directors has no reason to believe any of the nominees will be unable to accept such nomination, if such should occur, proxies will be voted (unless marked to the contrary) for such substitute person or persons, if any, as shall be recommended by the Board of Directors. However, proxies will not be voted for more than two Directors. Shareholders who do not wish their shares to be voted for a particular nominee may so direct in the space provided in the proxy card.

The Board of Directors has nominated, and recommends the election of, the two persons listed below to serve as Directors of the Company. The following information is furnished with respect to each nominee for election as a Director:

Name	Age	Position(s) with the Company
Robert Steele	37	Chief Executive Officer, President, Chairman of the Board of Directors
Andrew Haag	35	Chief Financial Officer, Director

Robert Steele has been the Company's Chief Executive Officer, President, and Chairman of the Board of Directors since January 30, 2003. He was a consultant to the Company from December 16, 2002. From May 1999 through June 2001 he was the founder and Chief Executive Officer of iBrite, a wireless information software company whose software products enable customers to deploy complex content such as engineering technical manuals and sales literature and pricing to small mobile devices such as PDAs. Mr. Steele provided the initial product design and assembled and led the team that: created a wireless / mobile software company and raised two rounds of financing totaling $4.5 Million; developed

business plans and financial models including detailed sales & marketing, forecasting, budgeting, competitive analysis and market positioning within the wireless industry; established contractual partnerships with AOL and Global Knowledge, a $400M training company; and created iBrite's Wireless iDNA Architecture. iBrite filed three patents based on Mr. Steele's designs and released eight software products. From September 1988 through April 1998 Mr. Steele served as Corporate Vice President & Chief Technology Officer for CADD Microsystems, Inc. (CMI), currently the leading provider of AutoDesk Computer Aided Design software, consulting, training and integration services in the Washington, DC Metropolitan Area. Mr. Steele sold and supervised significant consulting contracts with clients such as Lucent Technologies, Long Airdox Mining (Division of the Fortune 500 Marmon Group), ABB, GSA (General Services Administration), FAA (Federal Aviation Administration) and NRO (National Reconnaissance Office).Mr. Steele received a Bachelor of Science in Electronic and Computer Engineering from George Mason University in 1988.

Andrew Haag has been the Company's Chief Financial Officer and a Director since January 31, 2003. Prior to that, from December 2002, he was employed by the Camelot Group, Inc., an investment banking firm, to assist its corporate clients on capital structure, the structure of PIPE transactions and the preparation of offering documents. From May, 2001, Mr. Haag was employed by Aquasearch, Inc., a publicly held company, where he raised significant funds from private sources, advised its CEO on strategic business development issues, successfully negotiated several contracts to benefit the company. Mr. Haag assisted in drafting corporate business plan, terms of investment, press releases and other corporate documents. From November 1998 through April 2001 he was employed by Nutmeg Securities, Ltd., where he advised institutional and individual clientele on corporate offerings and equity trading, and performed corporate advisory work for both public and private companies. From June 1998 through October 1998 Mr. Haag was a Managing Director of Waldron & Co. Inc., an investment bank located in Irvine, CA.

From 1992 through 1998 Mr. Haag was employed by Auerbach, Pollak & Richardson, investment bankers, located in Stamford, CT and Beverly Hills, CA, rising to Managing Director, where he: assisted in the development of the firm, attracting and referring new hires and clients to all offices; developed a national and international client base for the firm that participated in a majority of the firm's corporate offerings; set up and managed road shows for firm's corporate clientele; attracted a wide variety of corporate clientele; assisted in the structuring and funding of offerings for corporate clientele; and increased visibility of the firm through networking of research and offerings. Mr. Haag attended the University of Maine and CUNY Hunter College.

Cumulative voting rights exist with respect to the election of Directors. Under the cumulative voting method, a shareholder may multiply the number of shares owned by the number of directors to be elected and cast the total number of votes for any one candidate or distribute the total number of votes in any proportion among as many candidates as the shareholder desires. However, a shareholder may not cumulate votes for a candidate unless such candidate's name has been placed in nomination prior to the voting and unless a shareholder has given notice at the Annual Meeting and prior to the voting of his intention to cumulate his votes. If any shareholder gives such notice, all shareholders (including those voting by proxy) may then cumulate their votes. The candidates receiving the highest number of votes up to the number of directors to be elected will be elected.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION OF ALL NOMINEES.

MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

The Board of Directors of the Company held a total of five (5) meetings during the fiscal year ended June 30, 2002 and eleven (11) meetings during the fiscal year ended June 30, 2003 (including actions adopted by unanimous consent). Each member of the Board of Directors attended 100% of the aggregate of the number of meetings of the Board and Board Committees of which he was a member during the 2002 fiscal year, and 100% of said meetings during the 2003 fiscal year. The Company does not have a policy with regard to director's attendance at annual meetings. The Company's Board of Directors has not created a procedure for shareholders to send communications to the Board since the Company's board and management team is quite small and easily accessible.

The entirety of the Board of Directors serves as the Company's Audit Committee.

The Audit Committee of the Board of Directors presently consists of Mr. Steele (Chairman) and Mr. Haag. It held no meetings during the 2002 fiscal year and has held one (1) meeting during the 2003 fiscal year. The Audit Committee recommends the engagement of the Company's independent accountants and is primarily

responsible for approving the services performed by the Company's independent accountants, for reviewing and evaluating the Company's accounting principles, reviewing the independence of independent auditors, and reviewing the adequacy and effectiveness of the Company's internal controls. See "Report of the Audit Committee."

COMPENSATION OF DIRECTORS

Members of the Board of Directors do not currently receive any cash compensation for serving on the Board of Directors or any Committee thereof.

DIRECTOR NOMINATION PROCESS

The Company presently does not have a nominating committee to select nominees for its Board of Directors, nor does it have a committee performing a similar function. Robert Steele and Andrew Haag currently comprise the entirety of the Company's Board of Directors and each has participated in the consideration of director nominees. Currently, the Company believes that, because the Company cannot afford directors and officers liability insurance, the Company could not recruit quality nominees, other than the current directors, to serve on the Board of Directors. No candidates have been put forth by shareholders, nor has the Company paid a third party to assist in identifying or evaluating prospective nominees.

ITEM 2

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

(Item 2 on Proxy Card)

The firm of Kabani & Company, Inc., Certified Public Accountants has been selected by the Board of Directors to serve as the Company's independent auditors for fiscal year 2004. The shareholders will be asked to ratify this appointment at the Annual Meeting. A representative of Kabani & Company, Inc., Certified Public Accountants is expected to be present at the Annual Meeting and will have the opportunity to make a statement if desired and is expected to be available to respond to appropriate questions.

On March 15, 2004, the Company received a letter dated March 8, 2004 from Heard,

McElroy &Vestal LLP ("Heard McElroy"), the the Company's principal accountant for the fiscal year ended June 30, 2003 resigning as the Company's independent public accountants. The decision to resign by Heard McElroy did not involve a dispute with the Company over accounting policies or practices. On March 24, 2004, the Company appointed Kabani & Company, Inc., Certified Public Accountants, as its new independent public accountants. The decision to retain Kabani & Company, Inc., Certified Public Accountants, was made by the Company's Board of Dirctors.

The reports of Heard McElroy on the Company's financial statements for each of the years ended June 30, 2003 and 2002 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company's two most recent fiscal years and through March 8, 2004, there were no disagreements with Heard McElroy on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to Heard McElroy's satisfaction, would have caused Heard McElroy to make reference to the subject matter of the disagreement in connection with its reports on the financial statements for such years, except for the fact that Heard McElroy, in its report for the past two fiscal years, has included an opinion that, due to the Company's lack of revenue producing assets and history of losses, there is doubt about the Company's ability to continue as a going concern.

During the Company's two most recent fiscal years and through March 15, 2004, there have been no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

The following resolution concerning the appointment of the independent auditors will be presented to the shareholders at the Annual Meeting:

RESOLVED, that the appointment by the Board of Directors of the Company of

Kabani & Company, Inc., Certified Public Accountants, independent auditors, to examine the books, accounts and records of the Company for the fiscal year ending June 30, 2004 is hereby ratified and approved.

The affirmative vote of a majority of the votes cast by all holders of the outstanding shares of Common Stock (with each share of Common Stock entitled to one vote) is required for ratification of this proposal.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE PROPOSAL SET FORTH ABOVE.

ITEM 3

APPROVAL OF AN AMENDMENT TO THE COMPANY`S ARTICLES OF INCORPORATION INCREASING THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK AND THE NUMBER OF AUTHORIZED SHARES OF PREFERRED STOCK

(Item 3 on Proxy Card)

The Company's Articles of Incorporation presently authorizes the issuance of up

to 50,000,000 shares of Common Stock and up to 10,000,000 shares of Preferred Stock. The Board of Directors has approved a resolution which if approved by the shareholders would increase the number of authorized shares of Common Stock to 200,000,000 and the number of authorized shares of Preferred Stock to 50,000,000.

As of December 1, 2003, no shares of Preferred Stock are issued and outstanding. However, the sole type of preferred stock allowed to be issued by the current Articles of Incorporation is, in the experience and judgment of management, not salable to investors and is unusable by the Company in its attempts to restructure and finance the Company's liabilities.

As of December 2003, the number of actually issued and outstanding shares of Common Stock is 48,884,994 which is slightly less than the number of shares of Common Stock which are currently authorized (50,000,000) by the Articles of Incorporation. Unfulfilled commitments of issuance of preferred and common shares consist of the following:

(A) The Company committed to issue 1,008,654 shares of Series A Preferred Stock in connection with the conversion $252,213 owed to employees. The Company has committed to issue one creditor 320,000 shares of Series A Preferred stock in connection with the conversion of $8,000 of past due monies owed. The Company has committed to grant the holders of Series A Preferred Stock the right to convert the shares into common stock on a one for one basis.

(B) The Company has committed to issue 2,000,000 shares of Series B Preferred Stock in connection with two executive employment agreements. The Company has committed to grant holders of the Series B Preferred Stock rights to convert the shares into common stock on a one for one basis.

(C) The Company has committed to issue 11 creditors 20,148 shares of Series C Preferred stock in connection with the conversion $20,148.16 of past due monies owed. The Company has committed to grant holders of the Series C Preferred Stock the rights to convert the shares into common stock on a twenty for one basis.

(D) The Company has committed to issue shareholders 4,828,572 shares of common stock and 2,642,857 three-year warrants to purchase common stock at prices ranging from $0.13-$0.175 in connection with consulting services and financing transactions made with these shareholders.

(E) The Company has committed to issue warrants to purchase 2,000,000 shares of common stock in connection with completed purchase order financing agreements.

(F) The Company has committed to issue 500,000 common shares and warrants to purchase 500,000 common shares in connection with consulting agreements.

(G) The Company has committed to issue up to 8,333,333 common shares and warrants to purchase up to 8,333,333 common shares in connection with a $500,000 financing agreement.

All of these commitments are part of the financing efforts that management has been pursuing to maintain operations, grow the Company, retain employees and build shareholder value.

Based upon the foregoing outstanding shares, the Company currently has 1,115,006 shares of Common Stock and, practically speaking, no shares of Preferred Stock remaining available for other purposes. The purpose of the proposed amendment is to authorize a sufficient number of additional shares of Common Stock and utilizable Preferred Stock (in conjunction with the proposal described in Item 4

below) to provide the Company with the flexibility to issue Common Stock and Preferred Stock for a variety of corporate purposes, such as to make acquisitions through the use of shares, to raise equity capital, to issue additional warrants or options, or to issue shares in lieu of debts or for payment of services. At this time, the Company has made arrangements to issue, subject to the approval of this resolution, approximately 3,348,802 shares of Preferred Stock, convertible into 3,731,614 shares of Common Stock, in lieu of approximately $280,361 of debts and services. Additionally, the Company has made arrangements to issue, subject to the approval of this resolution, up to 13,661,905 shares of Common Stock and warrants to purchase up to 13,476,190 shares of Common Stock. As of December 1, 2003, and assuming approval of this proposal, there would be up to 27,138,095 shares of Common Stock eligible for future issuance, and 3,348,802 shares of Preferred Stock eligible for future issuance. The Board of Directors will have the authority to issue these authorized shares of Common Stock and Preferred Stock from time to time for proper corporate purposes without further shareholder approval unless required by applicable law. Shareholders do not have preemptive rights with respect to the Common Stock. The issuance of Common Stock or securities, which may include Preferred Stock so designated, convertible into Common Stock, on other than a pro-rata basis, would result in the dilution of a present shareholder's interest in the Company.

The Company has not proposed the increase in the authorized number of shares with the intention of using the additional shares for anti-takeover purposes, although the Company could theoretically use the additional shares to make it more difficult or to discourage an attempt to acquire control of the Company. For example, in the event of an attempt to take over control of the Company, it may be possible for the Company to endeavor to impede the attempt by issuing shares of the Common Stock or voting Preferred Stock, thereby diluting the voting power of the other outstanding shares and increasing the potential cost to acquire control of the Company. The proposed amendment may therefore have the

effect of discouraging unsolicited takeover attempts. By potentially discouraging initiation of any such unsolicited takeover attempt, the proposed amendment may limit the opportunity for the Company's shareholders to dispose of their shares at the higher price generally available in takeover attempts. In addition, management might use the additional shares to resist or frustrate a third-party transaction providing an above-market premium that is favored by a majority of the independent shareholders. The Board of Directors is not aware of any attempt to take control of the Company and the Board of Directors has not presented this proposal with the intent that it be utilized as a type of anti-takeover device. At this time, the Company has no additional plans or proposals to adopt other provisions or enter into other arrangements that may have material anti-takeover consequences.

The resolution to be considered by the shareholders at the Annual Meeting reads as follows:

RESOLVED, that Paragraph A. of Article III of the Articles of Incorporation of the Company shall be amended and restated to read in full as follows:

> "A. The total number of shares of all classes of stock which the corporation shall have authority to issue is 250,000,000 shares, consisting of 200,000,000 shares of Common Stock, without par value, and 50,000,000 shares of Preferred Stock, without par value."

Shareholder approval of this proposal is required under California law. Approval of the amendment to the Company's Articles of Incorporation increasing the number of authorized shares of Common Stock and Preferred Stock requires the

affirmative vote of a majority of all votes cast by the holders of outstanding shares of Common Stock (with each share of Common Stock entitled to one vote). If this proposal is adopted, it will become effective upon filing of Articles of Amendment with the Secretary of State of California which the Company anticipates filing immediately following the Annual Meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THIS AMENDMENT TO THE COMPANY`S ARTICLES OF INCORPORATION TO INCREASE THE AUTHORIZED NUMBER OF SHARES OF COMMON STOCK AND THE AUTHORIZED NUMBER OF SHARES OF PREFERRED STOCK.

ITEM 4

APPROVAL OF AN AMENDMENT TO THE COMPANY`S ARTICLES OF INCORPORATION AUTHORIZING THE BOARD OF DIRECTORS TO DIVIDE THE PREFERRED STOCK INTO ANY NUMBER OF CLASSES OR SERIES, FIX THE DESIGNATION AND NUMBER OF SHARES OF EACH SUCH SERIES OR CLASS, AND ALTER OR DETERMINE THE RIGHTS, PREFERENCES, PRIVILEGES AND RESTRICTIONS OF EACH CLASS OR SERIES OF PREFERRED STOCK NOT YET ISSUED.

(Item 4 on Proxy Card)

The resolution to be considered by the shareholders at the Annual Meeting reads as follows:

RESOLVED, that Paragraphs B. and C. of Article III of the Articles of Incorporation of the Company shall be amended, restated and replaced by only Paragraph B. to read in full as follows:

"B. The Board of Directors is authorized to divide the Preferred Stock into any number of classes or series, fix the designation and number of shares of each such series or class, and alter or determine the rights, preferences, privileges and restrictions of each class or series of Preferred Stock not yet issued to the fullest extent of California law."

The Company has made this proposal to give it the corporate tools and flexibility needed to finance a growth-oriented business. The preferred stock currently authorized by the Company's Articles of Incorporation permit the issuance of a single class of stock with strict limitations that severely impair the ability or likelihood of the Company issuing and selling such preferred stock to finance the Company's growth or capital needs as necessary or desirable. Potential purchasers of preferred stock often desire the stock to have characteristics or properties that are currently unavailable under the current Articles of Incorporation. Similarly, the Company's capital needs and other circumstances may demand features in any preferred stock it intends to sell which are also absolutely precluded by the current Articles of Incorporation. In fact, it is unlikely that preferred stock allowed under the current Articles of Incorporation would be able to find any purchasers in today's sophisticated and rapidly changing capital markets. Hence, this proposal is needed to allow the Company to potentially utilize the issuance of preferred stock as a tool to assist the Company to raise capital. Further, as described in the discussion of proposed Item 3 above, the Company has already made commitments, contingent upon the vote of a majority of Company shareholders, to issue classes of preferred stock in order to convert debt to equity and to retain key employees, all of which are part of the restructuring efforts that management has been pursuing to maintain operations and build shareholder value. None of these classes of preferred stock can be issued pursuant to the current Articles of Incorporation. In the event that shareholders do not approve these proposals the Company will be in default of these agreements and may not be able

to renegotiate terms with these creditors, thereby creating substantial liabilities, or be able to retain key personnel.

Shareholder approval of this proposal is required under California law. Approval of the amendment to the Company's Articles of Incorporation authorizing the Board of Directors to determine the series and properties of unissued Preferred Stock requires the affirmative vote of a majority of all votes cast by the holders of outstanding shares of Common Stock (with each share of Common Stock entitled to one vote). If this proposal is adopted, it will become effective upon filing of an Amendment of the Articles of Incorporation with the Secretary of State of California which the Company anticipates filing immediately following the Annual Meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THIS AMENDMENT TO THE COMPANY`S ARTICLES OF INCORPORATION AUTHORIZING THE BOARD OF DIRECTORS TO DIVIDE THE PREFERRED STOCK INTO ANY NUMBER OF CLASSES OR SERIES, FIX THE DESIGNATION AND NUMBER OF SHARES OF EACH SUCH SERIES OR CLASS, AND ALTER OR DETERMINE THE RIGHTS, PREFERENCES, PRIVILEGES AND RESTRICTIONS OF EACH CLASS OR SERIES OF PREFERRED STOCK NOT YET ISSUED.

ITEM 5

APPROVAL OF AN AMENDMENT TO THE COMPANY`S
ARTICLES OF INCORPORATION AUTHORIZING A QUORUM FOR ANY SHAREHOLDER MEETING
TO BE AT LEAST ONE THIRD (1/3) OF THE SHARES ENTITLED TO VOTE

(Item 5 on Proxy Card)

Section 602 of the California General Corporation Law states that "Unless otherwise provided in the articles, a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of the shareholders, but in no event shall a quorum consist of less than one-third .... of the shares entitled to vote at the meeting...." The Company's articles of incorporation currently do not provide for a quorum consisting of less than a majority of shareholders; thus, currently a quorum for a shareholder meeting must constitute a majority of the shares entitled to vote. However, the Company's shares are currently rather widely distributed among a large number of small shareholders, and even though notice of shareholder meeting are properly and timely sent out to shareholders at addresses from current shareholder and NOBO lists, it is sometimes difficult for small public companies (such as the Company) to receive enough proxies and shareholders voting their shares in person to form a quorum for the shareholder's meeting. In such event, a new time and location for a shareholder's meeting must be set and new notices for the meeting must be mailed again. Preparing initial proxy materials, paying for a meeting place, and cost of mailing proxy materials to shareholders is a large expense for the Company, i.e. the cost of preparation of the current proxy preparation materials, mailing costs, cost of meeting facilities and cost of time for parties attending the meeting. Reducing the quorum amount to one-third of the shares entitled to vote at the meeting will greatly reduce (although not eliminate) the likelihood of not having a quorum for a meeting of shareholders and the necessity of having to reschedule another meeting, with attendant extra costs and delay, or even to abandon having such a meeting.

The resolution to be considered by the shareholders at the Annual Meeting reads as follows:

RESOLVED, that a new Article VIII shall be added to the Articles of Incorporation of the Company to read in full as follows:

"Article VIII. A quorum for any shareholder meeting shall be at least one third (1/3) of the shares entitled to vote."

Shareholder approval of this proposal is required under California law. Approval of the amendment to the Company's Articles of Incorporation authorizing a quorum for any shareholder meeting to be at least one third (1/3) of the shares entitled to vote requires the affirmative vote of a majority of all votes cast by the holders of outstanding shares of Common Stock (with each share of Common Stock entitled to one vote). If this proposal is adopted, it will become effective upon filing of Articles of Amendment with the Secretary of State of California which the Company anticipates filing immediately following the Annual Meeting.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THIS AMENDMENT TO THE COMPANY`S ARTICLES OF INCORPORATION AUTHORIZING A QUORUM FOR ANY SHAREHOLDER MEETING TO BE AT LEAST ONE THIRD (1/3) OF THE SHARES ENTITLED TO VOTE.

ITEM 6
APPROVAL OF THE 2004 STOCK OPTION PLAN

(Item 6 on Proxy Card)

The Company's shareholders are being asked to approve the Company's 2003 Stock Option Plan, a copy of which is attached hereto as Appendix "A".

Plan Summary

The following description of the 2004 Stock Option Plan is intended only as a summary and is qualified in its entirety by reference to the 2003 Stock Option Plan.

Purpose

The purpose of the 2004 Stock Option Plan is to enhance the profitability and value of the Company for the benefit of its stockholders principally by enabling the Company to offer employees and consultants of the Company and its subsidiaries and non-employee directors of the Company stock-based incentives in the Company in order to attract, retain and reward such individuals and strengthen the mutuality of interest between such individuals and the Company stockholders.

Eligibility

All employees and consultants of the Company and its subsidiaries and non-employee directors of the Company designated by the Board of Directors of the Company to participate in the 2004 Stock Option Plan are eligible to receive options under the 2004 Stock Option Plan.

Available Shares

If the proposed amendment is approved, options covering a maximum of 11,822,500 shares of common stock may be issued under the 2004 Stock Option Plan. If an option expires, terminates or is cancelled, the unissued shares of common stock subject to the option will again be available under the 2004 Stock Option Plan.

Terms of Stock Options

Under the 2004 Stock Option Plan, options granted to employees may be in the form of incentive stock options or nonqualified stock options. Options granted to consultants or non-employee directors may only be nonqualified stock options. The committee that administers the 2004 Stock Option Plan (see Administration below) (the Committee) will determine the number of shares subject to each option, the term of each option (which may not exceed ten years or, in the case of an incentive stock option granted to a 10% stockholder, five years), the exercise price per share of stock subject to each option, the vesting schedule (if any) and the other material terms of the option. No incentive stock option may have an exercise price less than 100% of the fair market value of the common stock at the time of the grant (or, in the case of an incentive stock option granted to a 10% stockholder, 110% of the fair market value). The exercise price of a nonqualified stock option will be determined by the Committee.

The option price upon exercise may be paid in cash or, if so determined by the Committee, in shares of common stock by a reduction in the number of shares of common stock issuable upon the exercise of the option or by such other method as the Committee determines. Options may be made exercisable in installments, and the exercisability of options may be accelerated by the Committee. The Committee may at any time offer to buy an option previously granted on such terms and conditions as the Committee establishes. At the discretion of the Committee, options may provide for reloads (i.e., a new option is granted for the same number of shares as the number used by the holder to pay the option price upon exercise).

Subject to limited exceptions, options are forfeited upon termination of employment or service. Options are not assignable (except by will or the laws of descent and distribution).

Options may not be granted after the tenth anniversary of the 2004 Stock Option Plans adoption.

Change in Control

Unless otherwise determined by the Committee at the time of the grant, upon a change in control (as defined in the 2004 Stock Option Plan), all of the options automatically will become fully exercisable. However, unless otherwise determined by the Committee at the time of the grant, no acceleration or exercisability of an option will occur, if the Committee determines prior to a change in control that the option will be honored or assumed or new rights substituted immediately following the change in control; provided that, the new rights or alternative option is based on stock which is or will be traded on an established securities market, contains at least substantially equivalent terms and conditions as the option being assumed, and has substantially equal earnings value.

Certain Reorganizations

The 2004 Stock Option Plan provides for appropriate adjustments of the number and kind of shares to be issued upon exercise of an option and of the exercise price to reflect changes in the capital structure of the corporation, stock splits, recapitalizations, mergers and reorganizations.

Amendment or Termination of the 2004 Stock Option Plan

The 2004 Stock Option Plan may be amended by the Board of Directors of the Company, except that stockholder approval of amendments will be required among

other things (a) to the extent stockholder approval is required by Rule 16b-3 under the Exchange Act, and (b) to (i) increase the maximum number of shares subject to options granted in a fiscal year, (ii) change the classification of employees eligible to receive awards, (iii) extend the maximum option period under the 2004 Stock Option Plan, or (iv) increase the number of shares that may be issued under the 2004 Stock Option Plan. The 2004 Stock Option Plan is effective for ten years from the date the 2004 Stock Option Plan was adopted during which time options may be granted.

Administration

The 2004 Stock Option Plan will be administered by the Committee, However, with respect to option grants to non-employee directors and any action under the 2004 Stock Option Plan relating to options held by non-employee directors, the Committee will consist of the entire Board of Directors. The Committee will determine the individuals who will receive options and the terms of the options, which will be reflected in written agreements with the holders. Decisions by the Board of Directors or the Committee with respect to the 2004 Stock Option Plan are final and binding.

Federal Income Tax Consequences

Incentive Stock Options. An optionee will not recognize income upon the grant or exercise of an incentive stock option. Instead, the optionee will be taxed at the time he or she sells the stock purchased pursuant to the option. The optionee will be taxed on the difference between the price he or she paid for the stock and the amount for which he or she sells the stock. If the optionee does not sell the stock within two years from the date of grant of the option and one year from the date the stock is transferred to the optionee, the gain will be a long-term capital gain, and the Company will not be entitled to a

deduction. If the optionee sells the stock at a gain prior to that time, the difference between the amount the optionee paid for the stock and the lesser of the fair market value on the date of exercise or the amount for which the stock is sold will be taxed as ordinary income and the Company will be entitled to a corresponding deduction. If the stock is sold for an amount in excess of the fair market value on the date of exercise, the excess amount will be taxed as capital gain. If the optionee sells the stock for less than the amount he or she paid for it, the loss will be taxed as a capital loss. Exercise of an incentive stock option may subject an optionee to, or increase an optionees liability for, the alternative minimum tax.

Non-Qualified Stock Options. An optionee will not recognize income upon the grant of a non-qualified stock option under the 2004 Stock Option Plan or at any time prior to the exercise of the option or a portion thereof. Generally, at the time the optionee exercises a non-qualified option or portion thereof, the optionee will recognize compensation taxable as ordinary income in an amount equal to the excess of the fair market value of the underlying stock on the date the option is exercised over the option price of the stock and the Company will then be entitled to a corresponding deduction. At that time, the Company will be subject to income tax withholding requirements and will have the right to require an optionee who is or was an employee of the Company to remit in cash to the Company an amount sufficient to satisfy any federal, state and local tax requirements prior to the delivery of any certificate or certificates for such shares of stock.

A subsequent taxable disposition of the stock acquired upon exercise of an option and held as a capital asset will result in a capital gain or loss measured by the difference between the fair market value of the stock on the

date of the option exercise and the amount realized on later disposition.

The foregoing is a summary discussion of certain federal income tax consequences to optionees under the Internal Revenue Code and should not be construed as legal, tax or investment advice. ALL 2004 STOCK OPTION PLAN PARTICIPANTS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCESAPPLICABLE TO THEM, INCLUDING FEDERAL, STATE, LOCAL AND FOREIGN TAX LAWS.

Stockholder Approval

The Company's board of directors seeks stockholder approval because such approval is required under the Internal Revenue Code as a condition to incentive stock option treatment and will maximize the potential for deductions associated with any non-qualified options granted under the 2004 Stock Option Plan.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE 2004 STOCK OPTION PLAN AS OUTLINED ABOVE.

REPORT OF THE AUDIT COMMITTEE

MEMBERSHIP AND ROLE OF THE AUDIT COMMITTEE

The Audit Committee of the Company's Board of Directors (the "Audit Committee") currently consists of the entirety of the Board of Directors. None of the members is independent as defined under the National Association of Securities Dealers` listing standards.

REVIEW OF THE COMPANY`S AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003

The Audit Committee has reviewed and discussed the audited financial statements of the Company for the fiscal year ended June 30, 2003 with the Company's management. The Audit Committee also discussed with Kabani & Company, Inc., Certified Public Accountants, the Company's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61 "Communication with Audit Committees".

Based on the Audit Committee's reviews and discussions noted above, the Audit Committee recommended to the Board of Directors that the Company's consolidated audited financial statements be included in the Company's Annual Report on Form 10-KSB for the fiscal year ended June 30, 2003, for filing with the Securities and Exchange Commission.

The Audit Committee recommends the engagement of the Company's independent accountants appointment by the Board of Directors of the Company of Kabani & Company, Inc., Certified Public Accountants, independent auditors, to examine the books, accounts and records of the Company for the fiscal year ending June 30, 2004

Audit Committee [June 2003-current]

Mr. Robert Steele
Mr. Andrew Haag

AUDIT AND RELATED FEES

Audit Fees

The aggregate fees billed by the Company's auditors for professional services rendered in connection with the audit of the Company's annual consolidated financial statements for fiscal 2003 and 2002 and reviews of the consolidated financial statements included in the Company's Forms 10-QSB were $75,733 for 2002 and $20,375 for 2003. An additional $21,084 was billed to the Company as cumulative "late fees", by the auditor of the Company's annual consolidated financial statements for fiscal 2002.

Audit-Related Fees

For fiscal 2003 and 2002, the Company's auditors did not bill any fees for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees" above.

Tax Fees

No fees were billed by the Company's auditors for professional services for tax compliance, tax advice, and tax planning for fiscal 2003 and 2002, respectively.

All Other Fees

No fees were billed by the Company's auditors for all other non-audit services rendered to the Company, such as attending meetings and other miscellaneous financial consulting, in fiscal 2003 and 2002.

Audit Committee

The audit committee meets prior to filing of any Form 10-QSB or 10-KSB to approve those filings. In addition, the committee meets to discuss audit plans and anticipated fees for audit and tax work prior to the commencement of that work. Approximately 100% of all fees paid to our independent auditors for fiscal 2003 are pre-approved by the audit committee.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than ten percent of Common Stock, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock. Executive officers, directors and ten percent stockholders are required by SEC regulations to furnish the Company with a copy of all Section 16(a) forms ("Forms 3, 4, and 5") that they file. To the Company's knowledge, based solely on a review of copies of the Forms 3, 4 and 5 furnished to the Company, except as set forth below, all applicable Section 16(a) filing requirements were complied with.

Mr. Robert Steele failed to file a Form 3 reporting his beneficial ownership of securities at the time he became an officer or director of the Company. The appropriate Form was filed by Mr. Steele on September 19, 2003. Mr. Andrew Haag failed to file a Form 3 reporting his beneficial ownership of securities at the time he became an officer or director of the Company. The appropriate Form was filed by Mr. Haag on September 19, 2003.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In the past we made unsecured loans to our previous directors and officers, listed below. This is no longer a practice of the Company. These loans were all renegotiated as of June 30, 1999. The current loan terms each provide that they are due in 20 years, on June 30, 2019. They bear interest at 4% per annum. Each former officer is obligated to pay $100 per month until the loan matures and to pay the remaining unpaid balance in one balloon payment on June 30, 2019. At June 30, 2002, and June 30, 2003, the following amounts of principal and interest on these loans were unpaid:

	6/30/02	6/30/03
Tom Sims	$ 200,085	$ 216,409
Kurt Kunz	86,716	96,599
Kelly Kunz	50,624	55,897
Teresa Kunz	14,200	13,850
	$ 351,625	$ 382,565

These loans were not made in arms-length negotiations between us and the borrowers. The borrowers could not have obtained unsecured loans on similar terms from unrelated third parties. Because of the unsecured nature and length of these loans, they have been discounted by $378,739 (99%) on our financial statements. To the extent that the interest rate, maturity and other terms of these loans are more favorable than could be obtained from third parties, the benefit received by the directors and officers can be considered additional compensation to them.

In January 2003, we entered into a Consulting Agreement with Zubair Kazi. In exchange for his business consulting services, Mr. Kazi was granted a warrant, expiring July 31, 2003, to purchase 4,500,000 shares of our common stock at an exercise price of $0.02 per share. Mr. Kazi currently owns approximately 9.4% of the Company's outstanding common stock.

In June 2003, we entered into an agreement to sell two purchase orders to Zubair Kazi, a private investor. Mr. Kazi currently owns 9.4% of the Company's outstanding common stock. The agreement allowed for the investor to buy these two purchase orders at 97% of face value. This investor was paid directly from the sales proceeds once they were received by Quintek. As part of the financing agreement, the investor will receive a warrant to purchase 500,000 shares of our common stock at an exercise price of $0.046 per share, if and when additional shares of common stock are authorized for issuance by our shareholders. The warrant will have an expiration date of June 2, 2008. As of June 30, 2003, we received $123,083 in financing under this agreement.

In June 2003, we entered into a Purchase Order Financing Agreement with a business management company owned by Zubair Kazi. As part of this agreement, Mr. Kazi's company (or "investor") received an equity fee of a warrant to purchase 1,500,000 shares of our common stock at an exercise price of $0.043 per share, if and when additional shares of common stock are authorized for issuance by our shareholders. The warrant will have an expiration date of June 13, 2008. The financing is limited to $200,000 per month and $4,800,000 in total financing over the 2 year life of the agreement. The company will receive an additional warrant, as a bonus, to purchase two additional shares of our common stock for each $1.00 of financing provided. These bonus warrants shall allow the investor to purchase common stock at the average closing price of our stock for the 90 days prior to the closing of the Purchase Order financing transaction they represent or a fifty percent (50%) discount to the closing price of Quintek's common stock at the day of the closing of the transaction they represent. As of June 30, 2003, we received no financing under this agreement. Perfected Purchase

Orders (delivered to and accepted by the customer) will be purchased by the investor at three percent (3%) discount to the investor, or ninety-seven percent (97%) of face value. Non-Perfected Purchase orders (not yet shipped to customer) will be purchased by the investor at ten percent (10%) discount to the investor, or ninety percent (90%) of face value. Quintek will pay a late fee as follows. For Perfected Purchase Orders not paid within 30 days Quintek will pay a late fee equal to three percent (3%) per month. For Non-Perfected Purchase Orders not paid within 60 days Quintek will pay a late fee equal to five percent (5%) per month. Late fees may be paid in cash or stock at the option of the investor.

SHAREHOLDER PROPOSALS FOR THE 2005 ANNUAL MEETING OF SHAREHOLDERS

Shareholder proposals submitted pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") for inclusion in the Company's proxy materials for its 2005 Annual Meeting of Shareholders must be received by the Secretary of the Company at the principal offices of the Company no later than April _____, 2004.

Written notice of proposals of shareholders submitted outside the processes of Rule 14a-8 under the Exchange Act for consideration at the 2005 Annual Meeting must have been received by the Company on or before June 30, 2004 in order to be considered timely for purposes of Rule 14a-4 under the Exchange Act. The persons designated in the Company's proxy card will be granted discretionary authority with respect to any shareholder proposal with respect to which the Company does not receive timely notice.

FORWARD-LOOKING STATEMENTS

This proxy statement may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by terminology such as "may," "will," "should," "could," "would," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "projects," "potential," or "continue" or the negative of such terms and other comparable terminology. Opinions, forecasts, projections, guidance or other statements other than statements of historical fact are considered forward-looking statements. These statements are based upon assumptions that are subject to change and other risks. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Certain risks and uncertainties inherent in the Company's business are set forth in its filings with the Securities and Exchange Commission. Estimates of future financial or operating performance, provided by the Company, are based on existing market conditions and information available at this time. Actual financial and operating performance may be higher or lower. Future performance is dependent upon many factors, including the success of the Company's international operations, the Company's ability to attract and retain distributors and preferred customers, changes in laws and governmental regulations and changes in market conditions. All subsequent written and oral forward-looking statements attributable to the Company or to individuals acting on the Company's behalf are expressly qualified in their entirety by this paragraph. The Company undertakes no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events, or otherwise.

GENERAL INFORMATION

The Board of Directors does not know of any matters to be presented for consideration other than the matters described in the Notice of Annual Meeting, but if any matters are properly presented, it is the intention of the persons named in the enclosed form of proxy to vote on such matters in accordance with their best judgment to the same extent as the person signing the proxy would be entitled to vote.

Shareholders who desire to have their shares voted at the Annual Meeting are requested to mark, sign, and date the enclosed proxy and return it promptly in the enclosed postage-paid envelope. Shareholders may revoke their proxies at any time prior to the Annual Meeting and shareholders who are present at the Annual Meeting may revoke their proxies and vote, if they so desire, in person.

A copy of the Company's Annual Report on Form 10-KSB, as filed with the Securities and Exchange Commission, for the fiscal year ended June 30, 2003 is enclosed with this Proxy Statement and Proxy.

By Order of the Board of Directors,

/s/ Robert Steele

April _____, 2004

ROBERT STEELE
Chairman and Chief Executive Officer

APPENDIX A

2004 STOCK OPTION PLAN 0F QUINTEK TECHNOLOGIES, INC.

QUINTEK TECHNOLOGIES, INC.

2004 Stock Option Plan

ARTICLE I.

PURPOSE

The purpose of this Quintek Technologies, Inc. 2004 Stock Option Plan (the "Plan"), is to enhance the profitability and value of Quintek Technologies, Inc. (the "Company") for the benefit of its shareholders by enabling the Company to offer certain employees and Consultants (as defined herein) of the Company and its Subsidiaries (as defined herein) and non-employee directors of the Company stock based incentives in the Company, thereby creating a means to raise the level of stock ownership by employees, Consultants and non-employee directors in order to attract, retain and reward such individuals and strengthen the mutuality of interests between such individuals and the Company's shareholders.

ARTICLE II.

DEFINITIONS

For purposes of this Plan, the following terms shall have the following meanings:

2.1. "Board" shall mean the Board of Directors of the Company.

2.2. "Cause" shall mean, with respect to a Participant's Termination of

Relationship, unless otherwise determined by the Committee at grant, willful misconduct in connection with the Participant's employment or consultancy or willful failure to perform his or her employment or consultancy responsibilities in the best interests of the Company (including, without limitation, breach by the Participant of any provision of any employment, nondisclosure, non-competition or other similar agreement between the Participant and the Company), as determined by the Committee, which determination shall be final, conclusive and binding. With respect to a Participant's Termination of Directorship, Cause shall mean an act or failure to act that constitutes "cause" for removal of a director under applicable California law.

2.3. "Change in Control" shall have the meaning set forth in Article VIII.

2.4. "Code" shall mean the Internal Revenue Code of 1986, as amended. Any reference to any section of the Code shall also be a reference to any successor provision.

2.5. "Committee" shall mean a committee or sub-committee of the Board appointed from time to time by the Board or such committee, as the case may be, which Committee shall include two or more directors who are non-employee directors as defined in Rule 16b-3 (as defined herein) and outside directors as defined under Section 162(m) of the Code (as defined herein). If for any reason the appointed Committee does not meet the requirements of Rule 16b-3 or Section 162(m) of the Code, such noncompliance with the requirements of Rule 16b-3 or Section 162(m) of the Code shall not affect the validity of the awards, grants, interpretations or other actions of the Committee. Notwithstanding the foregoing, with respect to grants of Options to non-employee directors and any action hereunder relating to Options held by non-employee directors, the Committee shall mean the Board. If and to the extent that no Committee exists which has the authority to administer the Plan, the functions of the Committee shall be exercised by the Board.

Page 24

2.6. "Common Stock" means the Common Stock, no par value per share, of the Company.

2.7. "Consultant" means any advisor or consultant to the Company or its Subsidiaries who is eligible pursuant to Article V to be granted Options under this Plan.

2.8. "Disability" shall mean total and permanent disability, as defined in Section 22(e)(3) of the Code.

2.9. "Effective Date" shall mean the effective date of the Plan as defined in Article XII.

2.10. "Eligible Employee" shall mean the employees of the Company and its Subsidiaries who are eligible pursuant to Article V to be granted Options under this Plan.

2.11. "Exchange Act" shall mean the Securities Exchange Act of 1934.

2.12. "Fair Market Value" for purposes of this Plan, unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, shall mean, as of any date, the last sales price reported for the Common Stock on the applicable date (i) as reported by the principal national securities exchange in the United States on which it is then traded, or (ii) if not traded on any such national securities exchange, as quoted on an automated quotation system sponsored by the National Association of Securities Dealers. If the Common Stock is not readily tradable on a national securities exchange or any system sponsored by the National Association of Securities Dealers, its Fair

Market Value shall be set in good faith by the Committee. For purposes of the grant of any Option, the applicable date shall be the date for which the last sales price is available at the time of grant.

2.13. "Good Reason" shall mean, with respect to a Participant's Termination of Relationship, (i) if there is an employment agreement between the Company or a Subsidiary and the Participant in effect at the time of grant that defines "good reason" (or words of like import) a termination that is or would be deemed for "good reason" (or words of like import) as defined under such employment agreement at the time of grant, (ii) if there is an employment agreement between the Company or a Subsidiary and the Participant in effect at the time of grant that does not define "good reason" (or words of like import), a voluntary termination which is permitted under the terms of such employment agreement and which is at least ninety (90) days after the occurrence of an event which would be grounds for a termination by the Company that is or would be deemed for "cause" (or words of like import) as defined under such employment agreement at the time of grant, or (iii) if there is no employment agreement between the Company or a Subsidiary and the Participant in effect at the time of grant, a voluntary termination for any reason upon two (2) weeks' prior written notice to the Company, which is at least ninety (90) days after the occurrence of an event which would be grounds for a Termination of Relationship by the Company for Cause (without regard to any notice or cure period requirement).

2.14. "Incentive Stock Option" shall mean any Stock Option awarded under this Plan intended to be, and designated as, an "Incentive Stock Option" within the meaning of Section 422 of the Code.

2.15. "Non-Qualified Stock Option" shall mean any Stock Option awarded under this Plan that is not an Incentive Stock Option.

2.16. "Participant" shall mean the following persons to whom an Option has been granted pursuant to this Plan; Eligible Employees and Consultants of the Company or its Subsidiaries and non-employee directors of the Company.

2.17. "Retirement" with respect to a Participant's Termination of Relationship shall mean a Termination of Relationship without Cause from the Company and/or a Subsidiary by a Participant who has attained (i) at least age sixty-five (65); or (ii) such earlier date after age fifty-five (55) as approved by the Committee with regard to such Participant. With respect to a Participant's Termination of Directorship, Retirement shall mean the failure to stand for reelection or the failure to be reelected after a Participant has attained age sixty-five (65).

2.18. "Rule 16b-3" shall mean Rule 16b-3 under Section 16(b) of the Exchange Act as then in effect or any successor provisions.

2.19. "Section 162(m) of the Code" shall mean the exception for performance-based compensation under Section 162(m) of the Code and any Treasury regulations thereunder.

2.20. "Stock Option" or "Option" shall mean any option to purchase shares of Common Stock granted to Eligible Employees, Consultants or non-employee directors pursuant to Article VI.

2.21. "Subsidiary" shall mean any corporation that is defined as a subsidiary corporation in Section 424(f) of the Code.

2.22. "Ten Percent Shareholder" shall mean a person owning Common Stock of the Company possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company as defined in Section 422 of the

Code.

2.23 "Termination of Consultancy" shall mean (i) an individual is no longer acting as a Consultant to the Company or a Subsidiary; or (ii) when an entity which is retaining a Participant as a Consultant ceases to be a Subsidiary, unless the Participant thereupon is retained as a Consultant by the Company or another Subsidiary.

2.24. "Termination of Directorship" shall mean, with respect to a non-employee director, that the non-employee director has ceased to be a director of the Company for any reason.

2.25. "Termination of Employment" shall mean (i) a termination of service (for reasons other than a military or personal leave of absence granted by the Company) of a Participant from the Company and its Subsidiaries; or (ii) when an entity which is employing a Participant ceases to be a Subsidiary, unless the Participant thereupon becomes employed by the Company or another Subsidiary.

2.26. "Termination of Relationship" shall mean a Termination of Employment or a Termination of Consultancy, as applicable.

2.27. "Transfer" or "Transferred" shall mean anticipate, alienate, attach, sell, assign, pledge, encumber, charge or otherwise transfer.

2.28. "Withholding Election" shall have the meaning set forth in Section 11.4.

ARTICLE III.

ADMINISTRATION

3.1. The Committee. The Plan shall be administered and interpreted by the Committee.

Page 26

3.2. Awards. The Committee shall have full authority to grant Stock Options, pursuant to the terms of this Plan. In particular, the Committee shall have the authority:

(a) to select the Eligible Employees, Consultants and non-employee directors to whom Stock Options may from time to time be granted hereunder;

(b) to determine whether and to what extent Stock Options are to be granted hereunder to one or more Eligible Employees, Consultants or non-employee directors;

(c) to determine, in accordance with the terms of this Plan, the number of shares of Common Stock to be covered by each Stock Option granted to an Eligible Employee, Consultant or non-employee director;

(d) to determine the terms and conditions, not inconsistent with the terms of this Plan, of any Stock Option granted hereunder to an Eligible Employee, Consultant or non-employee director (including, but not limited to, the share price, any restriction or limitation, any vesting schedule or acceleration thereof, or any forfeiture restrictions or waiver thereof, and the shares of Common Stock relating thereto, based on such factors, if any, as the Committee shall determine, in its sole discretion);

(e) to determine whether and under what circumstances a Stock Option may be settled in cash and/or Common Stock under Subsection 6.3(d);

(f) to determine whether, to what extent and under what circumstances to provide loans (which shall be on a recourse basis and shall bear a reasonable rate of interest) to Eligible Employees, Consultants or non-employee directors in order to exercise Options under the Plan; and

(g) to determine whether to require Eligible Employees, Consultants or non-employee directors, as a condition of the granting of any Option, to not sell or otherwise dispose of shares acquired pursuant to the exercise of an Option for a period of time as determined by the Committee, in its sole discretion, following the date of the acquisition of such Option.

3.3. Guidelines. Subject to Article IX hereof, the Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing this Plan and perform all acts, including the delegation of its administrative responsibilities, as it shall, from time to time, deem advisable; to construe and interpret the terms and provisions of this Plan and any Option granted under this Plan(and any agreements relating thereto); and to otherwise supervise the administration of this Plan. The Committee may correct any defect, supply any omission or reconcile any inconsistency in this Plan or in any agreement relating thereto in the manner and to the extent it shall deem necessary to carry this Plan into effect, but only to the extent any such action would be permitted under the applicable provisions of Rule 16b-3 (if any) and the applicable provisions of Section 162(m) of the Code (if any). The Committee may adopt special guidelines and provisions for persons who are residing in, or subject to, the taxes of countries other than the United States to comply with applicable tax and securities laws. If and solely to the extent applicable, this Plan is intended to comply with Rule 16b-3 and Section162(m) of the Code and shall be limited, construed and interpreted in a manner so as to comply therewith.

3.4. Decisions Final. Any decision, interpretation or other action made or taken in good faith by or at the direction of the Company, the Board, or the Committee (or any of its members) arising out of or in connection with the Plan shall be within the absolute discretion of all and each of them, as the case may be, and shall be final, conclusive and binding on the Company and all employees, directors, consultants and Participants and their respective heirs, executors, administrators, successors and assigns.

3.5. Reliance on Counsel. The Company, the Board or the Committee may consult with legal counsel, who may be counsel for the Company or other counsel, with respect to its obligations or duties hereunder, or with respect to any action or proceeding or any question of law, and shall not be liable with respect to any action taken or omitted by it in good faith pursuant to the advice of such counsel.

3.6. Procedures. If the Committee is appointed, the Board shall designate one of the members of the Committee as chairman and the Committee shall hold meetings, subject to the By-Laws of the Company, at such times and places as it shall deem advisable. A majority of the Committee members shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination reduced to writing and signed by all Committee members in accordance with the By-Laws of the Company shall be fully effective as if it had been made by a vote at a meeting duly called and held. The Committee shall keep minutes of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

3.7. Designation of Advisors -- Liability.

(a) The Committee may designate employees of the Company and professional

advisors to assist the Committee in the administration of the Plan and may grant authority to employees to execute agreements or other documents on behalf of the Committee.

(b) The Committee may employ such legal counsel, consultants and agents as it may deem desirable for the administration of the Plan and may rely upon any opinion received from any such counsel or consultant and any computation received from any such consultant or agent. Expenses incurred by the Committee or Board in the engagement of any such counsel, consultant or agent shall be paid by the Company. The Committee, its members and any person designated pursuant to paragraph (a) above shall not be liable for any action or determination made in good faith with respect to the Plan. To the maximum extent permitted by applicable law, no officer or former officer of the Company or member or former member of the Committee or of the Board shall be liable for any action or determination made in good faith with respect to the Plan or any Stock Option granted under it. To the maximum extent permitted by applicable law and the Certificate of Incorporation and By-Laws of the Company and to the extent not covered by insurance, each officer or former officer and member or former member of the Committee or of the Board shall be indemnified and held harmless by the Company against any cost or expense (including reasonable fees of counsel reasonably acceptable to the Company) or liability (including any sum paid in settlement of a claim with the approval of the Company), and advanced amounts necessary to pay the foregoing at the earliest time and to the fullest extent permitted, arising out of any act or omission to act in connection with the Plan, except to the extent arising out of such officer's or former officer's, member's or former member's own fraud or bad faith. Such indemnification shall be in addition to any rights of indemnification the officers, directors or members or former officers, directors or members may have under applicable law or under the Certificate of Incorporation or By-Laws of the Company or Subsidiary. Notwithstanding anything else herein, this indemnification will not apply to the actions or determinations made by an individual with regard to Stock Options granted to him or her under this Plan.

ARTICLE IV.

SHARE AND OTHER LIMITATIONS

4.1. Shares.

(a) General Limitation. The aggregate number of shares of Common Stock which may be issued under this Plan with respect to which Stock Options may be granted shall not exceed 11,822,500 shares (subject to any increase or decrease pursuant to Section 4.2) which may be either authorized and unissued Common Stock or Common Stock held in or acquired for the treasury of the Company. If any Stock Option granted under this Plan expires, terminates or is cancelled for any reason without having been exercised in full or the Company repurchases any Stock Option pursuant to Section 6.3(f), the number of shares of Common Stock underlying the repurchased Option, and/or the number of shares of Common Stock underlying any unexercised Option shall again be available for the purposes of Options under the Plan.

(b) Individual Participant Limitations. The maximum number of shares of Common Stock subject to any Option which may be granted under this Plan to each Participant shall be determined by the Committee.

4.2. Changes.

(a) The existence of the Plan and the Options granted hereunder shall not affect

in any way the right or power of the Board or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company or Subsidiary, any issue of bonds, debentures, preferred or prior preference stock ahead of or affecting Common Stock, the dissolution or liquidation of the Company or Subsidiary, any sale or transfer of all or part of its assets or business or any other corporate act or proceeding.

(b) In the event of any such change in the capital structure or business of the Company by reason of any stock dividend or distribution, stock split or reverse stock split, recapitalization, reorganization, merger, consolidation, split-up, combination or exchange of shares, distribution with respect to its outstanding Common Stock or capital stock other than Common Stock, sale or transfer of all or part of its assets or business, reclassification of its capital stock, or any similar change affecting the Company's capital structure or business and the Committee determines an adjustment is appropriate under the Plan, the number and kind of shares or other property (including cash) to be issued upon exercise of an outstanding Option and the purchase price thereof shall be appropriately adjusted consistent with such change in such manner as the Committee may deem equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, Participants under this Plan or as otherwise necessary to reflect the change, and any such adjustment determined by the Committee shall be final, conclusive and binding on the Company and all Participants and employees and their respective heirs, executors, administrators, successors and assigns.

(c) Fractional shares of Common Stock resulting from any adjustment in Options pursuant to this Section 4 shall be aggregated until, and eliminated at, the time of exercise by rounding-down for fractions less than one-half (1/2) and rounding-up for fractions equal to or greater than one-half (1/2). No cash settlements shall be made with respect to fractional shares eliminated by rounding. Notice of any adjustment shall be given by the Committee to each Participant whose Option has been adjusted and such adjustment (whether or not such notice is given) shall be effective and binding for all purposes of the Plan.

Page 29

(d) In the event of a merger or consolidation in which the Company is not the surviving entity or in the event of any transaction that results in the acquisition of all or substantially all of the Company's outstanding Common Stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of the sale or transfer of all or substantially all of the Company's assets (all of the foregoing being referred to as "Acquisition Events"), then the Committee may, in its sole discretion, terminate all outstanding Options of Eligible Employees, Consultants and non-employee directors, effective as of the date of the Acquisition Event, by delivering notice of termination to each such Participant at least twenty (20) days prior to the date of consummation of the Acquisition Event; provided, that during the period from the date on which such notice of termination is delivered to the consummation of the Acquisition Event, each such Participant shall have the right to exercise in full all of his or her Options that are then outstanding (without regard to any limitations on exercisability otherwise contained in the Option Agreement) but contingent on occurrence of the Acquisition Event, and, provided that, if the Acquisition Event does not take place within a specified period after giving such notice for any reason whatsoever, the notice and exercise shall be null and void.

If an Acquisition Event occurs, to the extent the Committee does not terminate the outstanding Options pursuant to this Section 4.2(d), then the provisions of Section 4.2(b) shall apply.

ARTICLE V.

ELIGIBILITY

All employees and Consultants of the Company and its Subsidiaries and all non-employee directors of the Company are eligible to be granted Stock Options under this Plan. Eligibility under this Plan shall be determined by the Committee in its sole discretion.

ARTICLE VI.

STOCK OPTION GRANTS

6.1. Options. Each Stock Option granted hereunder shall be one of two types: (i) an Incentive Stock Option intended to satisfy the requirements of Section 422 of the Code or (ii) a Non-Qualified Stock Option.

6.2. Grants. The Committee shall have the authority to grant to any Eligible Employee one or more Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options. The Committee shall have the authority to grant to any Consultant one or more Non-Qualified Stock Options. The Board shall have the authority to grant to any non-employee director one or more Non-Qualified Stock Options. To the extent that any Stock Option does not qualify as an Incentive Stock Option(whether because of its provisions or the time or manner of its exercise or otherwise), such Stock Option or the portion there of which does not qualify, shall constitute a separate Non-Qualified Stock Option.

6.3. Terms of Options. Options granted under this Plan shall be subject to the following terms and conditions, and shall be in such form and contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall deem desirable:

(a) Option Price. The option price per share of Common Stock purchasable under an Incentive Stock Option shall be determined by the Committee at the time of grant but shall not be less than 100% of the Fair Market Value of the share of Common Stock at the time of grant; provided, however, if an Incentive Stock Option is granted to a Ten Percent Shareholder, the purchase price shall be no less than 110% of the Fair Market Value of the Common Stock. The purchase price of shares of Common Stock subject to a Non-Qualified Stock Option shall be determined by the Committee.

(b) Option Term. The term of each Stock Option shall be fixed by the Committee, but no Stock Option shall be exercisable more than ten (10) years after the date the Option is granted, provided, however, the term of an Incentive Stock Option granted to a Ten Percent Shareholder may not exceed five (5) years.

(c) Exercisability. Stock Options shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Committee at grant. If the Committee provides, in its discretion, that any Stock Option is exercisable subject to certain limitations (including, without limitation, that it is exercisable only in installments or within certain time periods), the Committee may waive such limitations on the exercisability at any time at or after grant in whole or in part (including, without limitation, that the Committee may waive the installment exercise provisions or accelerate the time at which Options may be exercised), based on such factors, if any, as the Committee shall determine, in its sole discretion.

(d) Method of Exercise. Subject to whatever installment exercise and waiting period provisions apply under subsection (c) above, Stock Options may be exercised in whole or in part at any time during the Option term, by giving written notice of exercise to the Company specifying the number of shares to be

purchased. Such notice shall be accompanied by payment in full of the purchase price in such form, or such other arrangement for the satisfaction of the purchase price, as the Committee may accept. If and to the extent determined by the Committee in its sole discretion at or after grant, payment in full or in part may also be made in the form of Common Stock withheld from the shares to be received on the exercise of a Stock Option hereunder or Common Stock owned by the Participant (and for which the Participant has good title free and clear of any liens and encumbrances) based on the Fair Market Value of the Common Stock on the payment date as determined by the Committee. No shares of Common Stock shall be issued until payment, as provided herein, therefore has been made or provided for and the Participant shall have none of the rights of a holder of shares of Common Stock until such shares of Common Stock have been issued.

(e) Incentive Stock Option Limitations. To the extent that the aggregate Fair Market Value (determined as of the time of grant) of the Common Stock with respect to which Incentive Stock Options are exercisable for the first time by an Eligible Employee during any calendar year under the Plan and/or any other stock option plan of the Company or any Subsidiary or parent corporation (within the meaning of Section 424(e) of the Code) exceeds $100,000, such Options shall be treated as Options which are not Incentive Stock Options.

Should the foregoing provision not be necessary in order for the Stock Options to qualify as Incentive Stock Options, or should any additional provisions be required, the Committee may amend the Plan accordingly, without the necessity of obtaining the approval of the shareholders of the Company.

(f) Buy Out and Settlement Provisions. The Committee may at any time on behalf of the Company offer to buy out an Option previously granted, based on such terms and conditions as the Committee shall establish and communicate to the Participant at the time that such offer is made.

(g) Form, Modification, Extension and Renewal of Options. Subject to the terms and conditions and within the limitations of the Plan, an Option shall be evidenced by such form of agreement or grant as is approved by the Committee, and the Committee may modify, extend or renew outstanding Options granted under the Plan (provided that the rights of a Participant are not reduced without his consent), or accept the surrender of outstanding Options (up to the extent not theretofore exercised) and authorize the granting of new Options in substitution therefore (to the extent not theretofore exercised).

Page 31

(h) Other Terms and Conditions. Options may contain such other provisions, which shall not be inconsistent with any of the foregoing terms of the Plan, as the Committee shall deem appropriate including, without limitation, permitting "reloads" such that the same number of Options are granted as the number of Options exercised, shares used to pay for the exercise price of Options or shares used to pay withholding taxes ("Reloads"). With respect to Reloads, the exercise price of the new Stock Option shall be the Fair Market Value on the date of the Reload and the term of the Stock Option shall be the same as the remaining term of the Options that are exercised, if applicable, or such other exercise price and term as determined by the Committee.

6.4. Termination of Relationship. The following rules apply with regard to Options upon the Termination of Relationship of a Participant:

(a) Termination by Reason of Death. If a Participant's Termination of Relationship is by reason of death, any Stock Option held by such Participant, unless otherwise determined by the Committee at grant or, if no rights of the Participant's estate are reduced, thereafter, may be exercised, to the extent exercisable at the Participant's death, by the legal representative of the

estate, at any time within a period of one (1) year from the date of such death, but in no event beyond the expiration of the stated term of such Stock Option.

(b) Termination by Reason of Disability. If a Participant's Termination of Relationship is by reason of Disability, any Stock Option held by such Participant, unless otherwise determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, may be exercised, to the extent exercisable at the Participant's termination, by the Participant (or the legal representative of the Participant's estate if the Participant dies after termination) at any time within a period of one (1) year from the date of such termination, but in no event beyond the expiration of the stated term of such Stock Option.

(c) Termination by Reason of Retirement. If a Participant's Termination of Relationship is by reason of Retirement, any Stock Option held by such Participant, unless otherwise determined by the Committee at grant, or, if no rights of the Participant are reduced, thereafter, shall be fully vested and may thereafter be exercised by the Participant at any time within a period of one (1) year from the date of such termination, but in no event beyond the expiration of the stated term of such Stock Option; provided, however, that, if the Participant dies within such exercise period, any unexercised Stock Option held by such Participant shall thereafter be exercisable, to the extent to which it was exercisable at the time of death, for a period of one (1) year (or such other period as the Committee may specify at grant or, if no rights of the Participant's estate are reduced, thereafter) from the date of such death, but in no event beyond the expiration of the stated term of such Stock Option.

(d) Involuntary Termination Without Cause or Termination for Good Reason. If a Participant's Termination of Relationship is by involuntary termination without Cause or for Good Reason, any Stock Option held by such Participant, unless otherwise determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, may be exercised, to the extent exercisable at termination, by the Participant at any time within a period of ninety (90) days from the date of such termination, but in no event beyond the expiration of the stated term of such Stock Option.

(e) Termination Without Good Reason. If a Participant's Termination of Relationship is voluntary but without Good Reason and such Termination of Relationship occurs prior to, or more than ninety (90) days after, the occurrence of an event which would be grounds for Termination of Relationship by the Company for Cause (without regard to any notice or cure period requirements), any Stock Option held by such Participant, unless otherwise

determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, may be exercised, to the extent exercisable at termination, by the Participant at any time within a period of thirty (30) days from the date of such Termination of Relationship, but in no event beyond the expiration of the stated term of such Stock Option.

(f) Other Termination. Unless otherwise determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, if a Participant's Termination of Relationship is for any reason other than death, Disability, Retirement, Good Reason involuntary termination without Cause or voluntary termination as provided in subsection (e) above, any Stock Option held by such Participant shall thereupon terminate and expire as of the date of termination, provided that (unless the Committee determines a different period upon grant or, if, no rights of the Participant are reduced, thereafter) in the event such termination is for Cause or is a voluntary termination without Good Reason or voluntary resignation within ninety (90) days after occurrence of an event which

would be grounds for Termination of Relationship by the Company for Cause (without regard to any notice or cure period requirement), any Stock Option held by the Participant at the time of occurrence of the event which would be grounds for Termination of Relationship for Cause shall be deemed to have terminated and expired upon occurrence of the event which would be grounds for Termination of Relationship by the Company for Cause.

6.5. Termination of Directorship. The following rules apply with regard to Options upon the Termination of Directorship:

(a) Death, Disability or Otherwise Ceasing to be a Director Other than for Cause. Except as otherwise determined by the Committee at grant or, if no rights of the Participant are reduced, thereafter, upon the Termination of Directorship, on account of Disability, death, Retirement, resignation, failure to stand for reelection or failure to be reelected or otherwise other than as set forth in (b) below, all outstanding Options then exercisable and not exercised by the Participant prior to such Termination of Directorship shall remain exercisable, to the extent exercisable at the Termination of Directorship, by the Participant or, in the case of death, by the Participant's estate or by the person given authority to exercise such Options by his or her will or by operation of law, for a one (1) year period commencing on the date of the Termination of Directorship, provided that such one (1) year period shall not extend beyond the stated time of such Options.

(b) Cause. Upon removal, failure to stand for reelection or failure to be renominated for Cause, or if the Company obtains or discovers information after Termination of Directorship that such Participant had engaged in conduct that would have justified a removal for Cause during such directorship, all outstanding Options of such Participant shall immediately terminate and shall be null and void.

(c) Cancellation of Options. No Options that were not exercisable during the period such person serves as a director shall thereafter become exercisable upon a Termination of Directorship for any reason or no reason whatsoever, and such Options shall terminate and become null and void upon a Termination of Directorship.

ARTICLE VII.

NON-TRANSFERABILITY

No Stock Option shall be Transferable by the Participant otherwise than by will or by the laws of descent and distribution. All Stock Options shall be exercisable, during the Participant's lifetime, only by the Participant. No Stock Option shall, except as otherwise specifically provided by law or herein, be Transferable in any manner, and any attempt to Transfer any such Option shall

be void, and no such Option shall in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of any person who shall be entitled to such Option, nor shall it be subject to attachment or legal process for or against such person.

ARTICLE VIII.

CHANGE IN CONTROL PROVISIONS

8.1. Benefits. In the event of a Change in Control of the Company (as defined below), except as otherwise provided by the Committee upon the grant of an Option, the Participant shall be entitled to the following benefits:

(a) Subject to paragraph (b) below, all outstanding Options of Participants granted prior to the Change in Control shall be fully vested and immediately exercisable in their entirety. The Committee, in its sole discretion, may provide for the purchase of any such Stock Options by the Company for an amount of cash equal to the excess of the Change in Control price (as defined below) of the shares of Common Stock covered by such Stock Options, over the aggregate exercise price of such Stock Options. For purposes of this Section 8.1, Change in Control price shall mean the higher of (i) the highest price per share of Common Stock paid in any transaction related to a Change in Control of the Company, or (ii) the highest Fair Market Value per share of Common Stock at any time during the sixty (60) day period preceding a Change in Control.

(b) Notwithstanding anything to the contrary herein, unless the Committee provides otherwise at the time an Option is granted to an Eligible Employee or Consultant hereunder or thereafter, no acceleration of exercisability shall occur with respect to such Option if the Committee reasonably determines in good faith, prior to the occurrence of the Change in Control, that the Options shall be honored or assumed, or new rights substituted therefore (each such honored, assumed or substituted option hereinafter called an "Alternative Option"), by such Participant's employer (or the parent or a subsidiary of such employer), or in the case of a Consultant, by the entity (or its parent or subsidiary) which retains the Consultant, immediately following the Change in Control, provided that any such Alternative Option must meet the following criteria: (i) the Alternative Option must be based on stock which is traded on an established securities market, or which will be so traded within thirty (30) days of the Change in Control; (ii) the Alternative Option must provide such Participant with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under such Option, including, but not limited to, an identical or better exercise schedule; and (iii) the Alternative Option must have economic value substantially equivalent to the value of such Option (determined at the time of the Change in Control). For purposes of Incentive Stock Options, any assumed or substituted Option shall comply with the requirements of Treasury regulation sec. 1.425-1 (and any amendments thereto).

8.2. Change in Control. A "Change in Control" shall be deemed to have occurred:

(a) upon any "person" as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, any trustee or other fiduciary holding securities under any employee benefit plan of the Company, any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of Common Stock of the Company), becoming the owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities (including, without limitation, securities owned at the time of any increase in ownership);

(b) during any period of two consecutive years, a change in the composition of the Board of Directors of the Company such that the individuals who, as of the date hereof, comprise the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, for purposes of this subsection that any individual who becomes a member of an Incumbent Board subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved in advance or contemporaneously with such election by a vote of at least a majority of those individuals who are members of the Incumbent Board (or deemed to be such pursuant to this proviso) shall be considered as though such individual were a member of the Incumbent Board; but, provided further, that any such individual whose initial assumption of office

occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors of the Company or actual or threatened tender offer for shares of the Company or similar transaction or other contest for corporate control (other than a tender offer by the Company) shall not be so considered as a member of the Incumbent Board;

(c) upon the merger or consolidation of the Company with any other corporation (other than a parent or subsidiary corporation within the meaning of Section 424(e) or 424(f) of the Code, respectively), other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; or

(d) upon the shareholders' of the Company approval of a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets other than the sale of all or substantially all of the assets of the Company to a person or persons who beneficially own, directly or indirectly, at least fifty percent (50%) or more of the combined voting power of the outstanding voting securities of the Company at the time of the sale.

ARTICLE IX.

TERMINATION OR AMENDMENT OF THE PLAN

9.1. Termination or Amendment. Notwithstanding any other provision of this Plan, the Board may at any time, and from time to time, amend, in whole or in part, any or all of the provisions of the Plan, or suspend or terminate it entirely, retroactively or otherwise; provided, however, that, unless otherwise required by law or specifically provided herein, the rights of a Participant with respect to Options granted prior to such amendment, suspension or termination, may not be impaired without the consent of such Participant and, provided further, without the approval of the shareholders of the Company, if and to the extent required by the applicable provisions of Rule 16b-3 or under the applicable provisions of Section 162(m) of the Code or, with regard to Incentive Stock Options, Section 422 of the Code, no amendment may be made which would (i) increase the maximum individual Participant limitations under Section 4.1(b);(ii) change the classification of employees eligible to receive Options under this Plan; (iii) extend the maximum option period under Section 6.3; or (iv) require shareholder approval in order for the Plan to continue to comply with the applicable provisions, if any, of Section 162(m) of the Code or, with regard to Incentive Stock Options, Section 422 of the Code. In no event may the Plan be amended without the approval of the shareholders of the Company in accordance with the applicable laws or other requirements to increase the

aggregate number of shares of Common Stock that may be issued under the Plan or to make any other amendment that would require shareholder approval under the rules of any exchange or system on which the Company's securities are listed or traded at the request of the Company. The Committee may amend the terms of any Option theretofore granted, prospectively or retroactively, but, subject to Article IV above or as otherwise specifically provided herein, no such amendment or other action by the Committee shall impair the rights of any holder without the holder's consent.

ARTICLE X.

UNFUNDED PLAN

10.1. Unfunded Status of Plan. This Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments as to which a Participant has a fixed and vested interest but which are not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

ARTICLE XI.

GENERAL PROVISIONS

11.1. Legend. The Committee may require each person receiving shares of Common Stock pursuant to the exercise of a Stock Option under the Plan to represent to and agree with the Company in writing that the Participant is acquiring the shares without a view to distribution thereof. In addition to any legend required by this Plan, the certificates for such shares may include any legend which the Committee deems appropriate to reflect any restrictions on Transfer. All certificates for shares of Common Stock delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed or any national securities association system upon whose system the Common Stock is then quoted, any applicable Federal or state securities law, and any applicable corporate law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

11.2. Other Plans. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

11.3. No Right to Employment/Consultancy/Directorship. Neither this Plan nor the grant of any Option hereunder shall give any Participant or other individual any right with respect to continuance of employment or consultancy by the Company or any Subsidiary, nor shall there be a limitation in any way on the right of the Company or any Subsidiary by which an employee is employed or if a consultant, retained, to terminate his employment or consultancy at any time. Neither this Plan nor the grant of any Option hereunder shall impose any obligation on the Company to retain any Participant as a director, nor shall it impose on the part of any Participant any obligation to remain as a director of the Company.

11.4. Withholding of Taxes. The Company shall have the right, if necessary or desirable (as determined by the Company),to deduct from any payment to be made to a Participant, or to otherwise require, prior to the issuance or delivery of any shares of Common Stock or the payment of any cash hereunder, payment by the Participant of, any Federal, state or local taxes required by law to be withheld. The Committee may permit any such withholding obligation with regard

to any Participant to be satisfied by reducing the number of shares of Common Stock otherwise deliverable or by delivering shares of Common Stock already owned. Any fraction of a share of Common Stock required to satisfy such tax obligations shall be disregarded and the amount due shall be paid instead in cash by the Participant.

11.5. Listing and Other Conditions.

(a) As long as the Common Stock is listed on a national securities exchange or system sponsored by a national securities association, the issue of any shares of Common Stock pursuant to the exercise of an Option shall be conditioned upon such shares being listed on such exchange or system. The Company shall have no obligation to issue such shares unless and until such shares are so listed, and the right to exercise any Option with respect to such shares shall be suspended until such listing has been effected.

(b) If at any time counsel to the Company shall be of the opinion that any sale or delivery of shares of Common Stock pursuant to the exercise of an Option is or may in the circumstances be unlawful or result in the imposition of excise taxes on the Company under the statutes, rules or regulations of any applicable jurisdiction, the Company shall have no obligation to make such sale or delivery, or to make any application or to effect or to maintain any qualification or registration under the Securities Act of 1933, as amended, or otherwise with respect to shares of Common Stock, and the right to exercise any Option shall be suspended until, in the opinion of said counsel, such sale or delivery shall be lawful or will not result in the imposition of excise taxes on the Company.

(c) Upon termination of any period of suspension under this Section 11.5, any Option affected by such suspension which shall not then have expired or terminated shall be reinstated as to all shares available before such suspension and as to shares which would otherwise have become available during the period of such suspension, but no such suspension shall extend the term of any Option.

11.6. Governing Law. This Plan shall be governed and construed in accordance with the laws of the State of California(regardless of the law that might otherwise govern under applicable California principles of conflict of laws).11.7. Construction. Wherever any words are used in this Plan in the masculine gender they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and wherever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply.

11.8. Other Benefits. No Stock Option granted under this Plan shall be deemed compensation for purposes of computing benefits under any retirement plan of the Company or its Subsidiaries nor affect any benefits under any other benefit plan now or subsequently in effect under which the availability or amount of benefits is related to the level of compensation.

11.9. Costs. The Company shall bear all expenses included in administering this Plan, including expenses of issuing Common Stock pursuant to the exercise of any Options hereunder.

11.10. No Right to Same Benefits. The provisions of Options need not be the same with respect to each Participant, and such Options to individual Participants need not be the same in subsequent years.

11.11. Death/Disability. The Committee may in its discretion require the transferee of a Participant to supply it with written notice of the Participant's death or Disability and to supply it with ae="padding:0in 0in 0in 0in;width:2.5%;

Net (loss) earnings per common share - diluted:

Continuing operations

$

(0.40

)

$

0.12

$

(0.39

)

$

0.13

Discontinued operation

(0.03

)

(0.21

)

Net (loss) earnings

$

(0.40

)

$

0.09

$

(0.39

)

$

(0.08

)

The Notes to the Consolidated Financial Statements are an integral part of these consolidated statements.

DOVER MOTORSPORTS, INC.

CONSOLIDATED BALANCE SHEETS

In Thousands, Except Share and Per Share Amounts

(Unaudited)

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash	$ 399	$ 69
Accounts receivable	782	743
Inventories	283	232
Prepaid expenses and other	5,787	1,713
Prepaid income taxes	600	
Deferred income taxes	105	242
Current assets held for sale		1,875
Current assets of discontinued operation		115
Total current assets	7,956	4,989
Property and equipment, net	97,193	116,330
Other assets	809	527
Deferred income taxes	316	206
Non current assets of discontinued operation		233
Total assets	$ 106,274	$ 122,285
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 497	$ 142
Accrued liabilities	2,408	2,470
Payable to Dover Downs Gaming & Entertainment, Inc.	4	18
Income taxes payable		123
Deferred revenue	11,066	3,644
Current liabilities of discontinued operation		685
Total current liabilities	13,975	7,082
Revolving line of credit	34,980	38,200
Liability for pension benefits	1,359	2,291
Other liabilities	2,256	121
Non current income taxes payable		1,241
Deferred income taxes	12,762	18,843
Total liabilities	65,332	67,778
Commitments and contingencies (see Notes to the Consolidated Financial Statements)		
Stockholders equity:		
Preferred stock, $0.10 par value; 1,000,000 shares authorized; shares issued and outstanding: none		
Common stock, $0.10 par value; 75,000,000 shares authorized; shares issued and outstanding: 18,289,977 and 18,197,552, respectively	1,829	1,820
Class A common stock, $0.10 par value; 55,000,000 shares authorized; shares issued and outstanding: 18,510,975 and 18,510,975, respectively	1,851	1,851
Additional paid-in capital	101,797	101,541
Accumulated deficit	(63,413)	(49,167)

Accumulated other comprehensive loss		(1,122)		(1,538)
Total stockholders equity		40,942		54,507
Total liabilities and stockholders equity	$	106,274	$	122,285

The Notes to the Consolidated Financial Statements are an integral part of these consolidated statements.

3

DOVER MOTORSPORTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Thousands

(Unaudited)

	Nine Months Ended September 30, 2011	
	2011	**2010**
Operating activities:		
Net loss	$ (14,246)	$ (2,868)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	3,745	4,690
Amortization of credit facility fees	319	316
Stock-based compensation	317	502
Deferred income taxes	(7,733)	(1,517)
Loss on extinguishment of debt	67	208
Impairment charge	15,687	7,964
Provision for contingent obligation	2,245	
Gain from insurance settlement		(298)
Changes in assets and liabilities:		
Accounts receivable	57	(8,472)
Inventories	(82)	(4)
Prepaid expenses and other	(4,344)	(661)
Prepaid income taxes/income taxes payable	(589)	759
Accounts payable	351	1,678
Accrued liabilities	(546)	1,648
Payable to Dover Downs Gaming & Entertainment, Inc.	(14)	35
Deferred revenue	7,422	(3,844)
Other liabilities	(266)	(522)
Net cash provided by (used in) operating activities	2,390	(386)
Investing activities:		
Capital expenditures	(229)	(469)
Proceeds from the sale of property and equipment	1,875	
Restricted cash		5,333
Insurance proceeds		298
Proceeds from the sale of available-for-sale securities	311	108
Purchase of available-for-sale securities	(314)	(111)
Net cash provided by investing activities	1,643	5,159
Financing activities:		
Borrowings from revolving line of credit	56,340	25,700
Repayments on revolving line of credit	(59,560)	(26,900)
Repayments of bonds payable		(2,986)
Premium and fees on extinguishment of debt		(167)
Repurchase of common stock	(52)	(50)
Credit facility fees	(431)	(245)
Net cash used in financing activities	(3,703)	(4,648)
Net increase in cash	330	125
Cash, beginning of period	69	155
Cash, end of period	$ 399	$ 280

Supplemental information:				
Interest paid	$	1,760	$	2,086
Income taxes paid	$	692	$	691
Change in accounts payable for capital expenditures	$		$	(87)

The Notes to the Consolidated Financial Statements are an integral part of these consolidated statements.

DOVER MOTORSPORTS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 Basis of Presentation

References in this document to we, us and our mean Dover Motorsports, Inc. and/or its wholly owned subsidiaries, as appropriate.

The accompanying consolidated financial statements have been prepared in compliance with Rule 10-01 of Regulation S-X and U.S. generally accepted accounting principles, and accordingly do not include all of the information and disclosures required for audited financial statements. These consolidated statements should be read in conjunction with the consolidated financial statements and notes thereto included in our latest Annual Report on Form 10-K filed on March 15, 2011. In the opinion of management, these consolidated statements include all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of operations, financial position and cash flows for the interim periods presented. Operating results for the three and nine-month periods ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011 due to the seasonal nature of our business.

NOTE 2 Business Operations

Dover Motorsports, Inc. is a public holding company that is a leading marketer and promoter of motorsports entertainment in the United States. Through our subsidiaries, we own and operate Dover International Speedway® in Dover, Delaware and Nashville Superspeedway® near Nashville, Tennessee. These facilities are scheduled to promote nine major events during 2011, all of which will be under the auspices of the premier sanctioning body in motorsports - the National Association for Stock Car Auto Racing (NASCAR).

In 2011, we are scheduled to promote the following major events:

- 2 NASCAR Sprint Cup Series events;
- 4 NASCAR Nationwide Series events; and
- 3 NASCAR Camping World Truck Series events.

All except two of the major events listed above were promoted during the first nine months of 2011. A NASCAR Sprint Cup Series event and a NASCAR Nationwide Series event at our Dover International Speedway facility were promoted in October 2011. These events were promoted in September 2010.

We derive a substantial portion of our revenues from admissions, event-related and broadcasting revenues attributable to our NASCAR-sanctioned events at Dover International Speedway which are held in May and October. Total revenues from these events were approximately 90% of total revenues for 2010.

On August 3, 2011, we announced that our wholly-owned subsidiary Nashville Superspeedway notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. We continue to conduct the weekly events we have scheduled for the remainder of 2011 and are currently evaluating all of our options for the facility. We incurred a non-cash impairment charge of $15,687,000 (see NOTE 4 - Impairment Charge for further discussion) and severance costs of approximately $150,000 in the third quarter of 2011 as a result of this event. Additionally, we recorded a $2,245,000 provision for contingent obligation reflecting the estimated portion of the Wilson County bonds debt service that will not be covered by the projected sales and incremental property taxes (see NOTE 11 Commitments and Contingencies for further discussion).

In November 2010, we announced the closing of our Gateway facility. The Gateway facility is located on approximately 290 acres of land in Madison, Illinois and the racetrack is primarily on leased property. We had long-term leases for approximately 150 acres with four landlords. We also own approximately 140 acres near the Gateway facility. In February 2011, three of the four landlords agreed to terminate the land leases in exchange for 18.5 acres of owned real estate and our agreement to abandon all improvements and certain personal property (including the racetrack) on the leased land. See NOTE 5 Discontinued Operation for further discussion.

We closed our Memphis Motorsports Park facility in October 2009 and executed an agreement to sell it in December 2010. The real estate sale closed on January 31, 2011. After closing costs and including the proceeds from the separate sale of all personal property at the facility in December 2010, our net proceeds were approximately $2,000,000.

NOTE 3 Summary of Significant Accounting Policies

Basis of consolidation and presentation The accompanying consolidated financial statements include the accounts of Dover Motorsports, Inc. and our wholly owned subsidiaries. Intercompany transactions and balances have been eliminated.

Investments Investments, which consist of mutual funds, are classified as available-for-sale and reported at fair-value in other assets in our consolidated balance sheets. Changes in fair value are reported in other comprehensive income (loss). See NOTE 8 Stockholders Equity and NOTE 9 Fair Value Measurements for further discussion.

Property and equipment Property and equipment is stated at cost. Depreciation is provided for financial reporting purposes using the straight-line method. Accumulated depreciation was $41,331,000 and $43,326,000 as of September 30, 2011 and December 31, 2010, respectively.

Impairment of long-lived assets Long-lived assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. Generally, fair value is determined using valuation techniques such as the comparable sales approach. Historically the impairment assessment for track facilities has also considered the cost approach valuation technique, which gives specific consideration to the value of the land plus contributory value to the improvements.

Income taxes Deferred income taxes are provided on all differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements based upon enacted statutory tax rates in effect at the balance sheet date. We record a valuation allowance to reduce our deferred tax assets when uncertainty regarding their realizability exists. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Interest expense on uncertain income tax positions is being recorded in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. We recorded interest expense of $0 and $4,000, and $10,000 and $119,000 during the three and nine-month periods ended September 30, 2011 and 2010, respectively, related to our uncertain income tax positions. During the third quarter of 2011 and 2010, we reversed $120,000 and $856,000, respectively, of previously recorded interest expense on uncertain income tax positions which are no longer subject to examination. Accrued interest on our uncertain income tax positions as of September 30, 2011 and December 31, 2010 was $6,000 and $122,000, respectively, and is included in other liabilities in the consolidated balance sheets.

We file income tax returns with the Internal Revenue Service and the states in which we conduct business. We have identified the U.S. federal and state of Delaware as our major tax jurisdictions. As of September 30, 2011, tax years after 2007 remain open to examination for federal income tax purposes. Tax years after 2006 remain open to examination for Delaware income tax purposes.

Revenue recognition We classify our revenues as admissions, event-related, broadcasting and other. Admissions revenue includes ticket sales for all Company events. Event-related revenue includes amounts received from sponsorship fees; luxury suite rentals; hospitality tent rentals and catering; concessions and souvenir sales and vendor commissions for the right to sell concessions and souvenirs at our facilities; sales of programs; track rentals and other event-related revenues. Broadcasting revenue includes rights fees obtained for television and radio broadcasts of events held at our speedways and ancillary media rights fees.

Revenues pertaining to specific events are deferred until the event is held. Concession and souvenir revenues are recorded at the time of sale. Revenues and related expenses from barter transactions in which we receive advertising or other goods or services in exchange for sponsorships of motorsports events are recorded at fair value. Barter transactions accounted for $95,000 and $400,000, and $140,000 and $540,000 of total revenues for the three and nine-month periods ended September 30, 2011 and 2010, respectively.

Under the terms of our sanction agreements, NASCAR retains 10% of the gross broadcast rights fees allocated to each NASCAR-sanctioned event as a component of its sanction fee. The remaining 90% is recorded as revenue. The event promoter is required to pay 25% of the gross broadcast rights fees to the event as part of the awards to the competitors, which we record as operating expenses.

We are responsible for collecting sales taxes from our customers on certain revenue generating activities and remitting these taxes to the appropriate governmental taxing authority. We include sales taxes in admissions and event-related revenues in our consolidated statements of operations with an equal amount in operating and marketing expenses. Sales taxes included in revenues and expenses for the three and nine-month periods ended September 30, 2011 and 2010 were $78,000 and $143,000, and $27,000 and $156,000, respectively.

Expense recognition Certain direct expenses pertaining to specific events, including prize and point fund monies and sanction fees paid to various sanctioning bodies, including NASCAR, marketing and other expenses associated with the promotion of our racing events are deferred until the event is held, at which point they are expensed.

The cost of non-event related advertising, promotion and marketing programs is expensed as incurred. Advertising expenses were $132,000 and $949,000, and $742,000 and $1,690,000 for the three and nine-month periods ended September 30, 2011 and 2010, respectively.

Net (loss) earnings per common share Basic and diluted net (loss) earnings per common share (EPS) are calculated in accordance with the provisions of ASC Topic 260, *Earnings Per Share*. Nonvested share-based payment awards that include rights to dividends or dividend equivalents, whether paid or unpaid, are considered participating securities, and the two-class method of computing EPS is applied for all periods presented. The following table sets forth the computation of basic and diluted EPS (in thousands, except per share amounts):

	Three Months Ended September 30,				Nine Months Ended September 30,			
		2011		2010		2011		2010
Net (loss) earnings per common share basic:								
Net (loss) earnings	$	(14,581)	$	3,416	$	(14,246)	$	(2,868)
Allocation to nonvested restricted stock awards				58				
Net (loss) earnings available to common stockholders	$	(14,581)	$	3,358	$	(14,246)	$	(2,868)
Weighted-average shares outstanding		36,195		36,099		36,194		36,094
Net (loss) earnings per common share basic:								
Continuing operations	$	(0.40)	$	0.12	$	(0.39)	$	0.13
Discontinued operation				(0.03)				(0.21)
Net (loss) earnings	$	(0.40)	$	(0.09)	$	(0.39)	$	(0.08)
Net (loss) earnings per common share diluted:								
Net (loss) earnings	$	(14,581)	$	3,416	$	(14,246)	$	(2,868)
Allocation to nonvested restricted stock awards				58				
Net (loss) earnings available to common stockholders	$	(14,581)	$	3,358	$	(14,246)	$	(2,868)
Weighted-average shares outstanding		36,195		36,099		36,194		36,094
Dilutive stock options								
Weighted-average shares and dilutive shares outstanding		36,195		36,099		36,194		36,094
Net (loss) earnings per common share diluted:								
Continuing operations	$	(0.40)	$	0.12	$	(0.39)	$	0.13
Discontinued operation				(0.03)				(0.21)
Net (loss) earnings	$	(0.40)	$	(0.09)	$	(0.39)	$	(0.08)

For the nine-month period ended September 30, 2011, options to purchase 2,000 shares of common stock were outstanding but not included in the computation of diluted EPS because they would have been anti-dilutive. There were no options outstanding for the three-month period ended September 30, 2011. For the three and nine-month periods ended September 30, 2010, options to purchase 205,000 and 322,000 shares of common stock, respectively, were outstanding but not included in the computation of diluted EPS because they would have been anti-dilutive.

Accounting for stock-based compensation We recorded total stock-based compensation expense of $87,000 and $317,000, and $163,000 and $502,000 as general and administrative expenses for the three and nine-month periods ended September 30, 2011 and 2010, respectively. We recorded income tax benefit (expense) of $36,000 and ($4,000), and $67,000 and $62,000 for the three and nine-month periods ended September 30, 2011 and 2010, respectively, related to our restricted stock awards.

Use of estimates The preparation of the accompanying consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities, disclosures about contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on our best estimates and judgment. We evaluate our estimates and assumptions on an ongoing basis using historical

experience and other factors, including the current economic environment, which we believe to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Illiquid credit markets, volatile equity markets and declines in consumer spending have

combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

Recent accounting pronouncements In June 2011, the FASB issued ASU 2011-5 codified in FASB ASC Topic 220, *Comprehensive Income,* which amended guidance relating to the presentation requirements of comprehensive income within an entity s financial statements. Under ASU 2011-5, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in a single continuous statement or in two separate but consecutive statements. ASU 2011-5 eliminates the previously available option of presenting the components of other comprehensive income as part of the statement of changes in equity. In addition, an entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The provisions of ASU 2011-5 are effective for fiscal years beginning after December 15, 2011 and will be applied retrospectively.

NOTE 4 Impairment Charge

Based upon the economic conditions that existed in the third quarter of 2011 and their impact on our current and projected operations and cash flows, and the potential impact on real estate valuations, combined with our decision to notify NASCAR that we would not seek 2012 sanctions for the two Nationwide Series and two Camping World Truck Series events at our Nashville facility, we concluded that it was necessary for us to review the carrying value of the long-lived assets at Nashville for impairment. In accordance with the provisions of ASC Topic 360, *Property, Plant and Equipment,* the recoverability of assets to be held and used was measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to result from the use and eventual disposition of the asset. As a result of the recoverability test, we concluded that the carrying amount of our Nashville facility exceeded the undiscounted cash flows.

Since the carrying amount of the assets exceeded the fair value, an impairment charge was recognized by the amount by which the carrying amount of the assets exceeded the fair value. Fair value of the assets for the Nashville facility was determined based on the value of owned real estate at the facility. The long-lived assets deemed to be impaired consisted of track facilities.

Based on the results of this analysis, we recorded a non-cash impairment charge in the third quarter of 2011 to write-down the carrying value of long-lived assets at our Nashville facility to fair value, as follows:

	Carrying Value of Long-Lived Assets	Fair Value of Long-Lived Assets	Non-Cash Impairment Charges
Nashville facility	$ 46,016,000	$ 30,329,000	$ 15,687,000

NOTE 5 Discontinued Operation

The results of operations for our Gateway facility are being reported as a discontinued operation and accordingly, the accompanying consolidated financials statements have been reclassified to report separately the assets, liabilities and operating results of this discontinued operation.

Summarized results of operations for our Gateway facility are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues	$	$ 3,687,000	$ 2,000	$ 6,363,000
Impairment charge				(7,964,000)
Loss from discontinued operation before income taxes	(2,000)	(1,481,000)	(107,000)	(11,708,000)
Income tax benefit of discontinued operation		517,000	37,000	4,095,000
Loss from discontinued operation	(2,000)	(964,000)	(70,000)	(7,613,000)

9

The major classes of assets and liabilities of the discontinued operation in the consolidated balance sheet are as follows as of December 31, 2010. There were none as of September 30, 2011:

Accounts receivable	$	96,000
Prepaid expenses and other		19,000
Current assets of discontinued operation	$	115,000
Property and equipment, net	$	233,000
Non current assets of discontinued operation	$	233,000
Accounts payable	$	4,000
Accrued liabilities		681,000
Current liabilities of discontinued operation	$	685,000

NOTE 6 Long-Term Debt

At September 30, 2011, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers, had a $65,000,000 secured credit agreement with a bank group. There was $34,980,000 outstanding under the credit facility at September 30, 2011, at an interest rate of approximately 3%. The maximum borrowing limit under the facility reduces to $60,000,000 as of March 31, 2012 and $55,000,000 as of March 31, 2013 and the facility expires April 12, 2014. The credit facility provides for seasonal funding needs, capital improvements, letter of credit requirements and other general corporate purposes. Interest is based upon LIBOR plus a margin that varies between 200 and 325 basis points depending on the leverage ratio (275 basis points at September 30, 2011). The terms of the credit facility contain certain covenants including minimum interest coverage and maximum funded debt to earnings before interest, taxes, depreciation and amortization. Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. We expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods during the next twelve months. In addition, the credit agreement includes a material adverse change clause, prohibits the payment of dividends by us and provides the lenders with a first lien on all of our assets. The credit facility also provides that if we default under any other loan agreement, that would be a default under this facility. At September 30, 2011, we were in compliance with the terms of the credit facility. After consideration of stand-by letters of credit outstanding, the remaining maximum borrowings available pursuant to the credit facility were $9,380,000 at September 30, 2011; however, in order to maintain compliance with the required quarterly debt covenant calculations as of September 30, 2011 $7,313,000 could have been borrowed as of that date.

In 1996, Midwest Racing, Inc. entered into an agreement (the SWIDA bonds) with Southwestern Illinois Development Authority (SWIDA) to receive the proceeds from the Taxable Sports Facility Revenue Bonds, Series 1996 (Gateway International Motorsports Corporation Project), a Municipal Bond Offering, in the aggregate principal amount of $21,500,000. SWIDA loaned all of the proceeds from the Municipal Bond Offering to Midwest Racing for the purpose of the redevelopment, construction and expansion of Gateway International Raceway (Gateway). The proceeds of the SWIDA bonds were irrevocably committed to complete construction of Gateway, to fund interest, to create a debt service reserve fund and to pay for the cost of issuance of the bonds. The repayment terms and debt service reserve requirements of the bonds issued in the Municipal Bond Offering corresponded to the terms of the SWIDA bonds. The bonds were being amortized through February 2012.

We had established certain restricted cash funds to meet debt service as required by the SWIDA bonds, which were held by the trustee (BNY Trust Company of Missouri). The SWIDA bonds were secured by a first mortgage lien on all the real property owned and a security interest in all property leased by Gateway. Also, the SWIDA bonds were unconditionally guaranteed by Midwest Racing. The SWIDA bonds bore interest at a rate of 9.2%. Interest expense related to the SWIDA bonds was $9,000 and $100,000 for the three and nine-month periods ended September 30, 2010 and is included in loss from discontinued operation in the accompanying consolidated statements of operations.

On July 21, 2010, we redeemed the $1,751,000 of remaining outstanding SWIDA bonds for $1,909,000 (including a $158,000 premium to the bondholders). The redemption resulted in a loss on extinguishment of debt of $208,000 (including the premium, professional fees and the write-off of deferred financing costs) in the second quarter of 2010. Subsequent to redeeming the SWIDA bonds, the remaining restricted cash was returned to us by the trustee.

NOTE 7 Pension Plans

We maintain a non-contributory tax qualified defined benefit pension plan. All of our full time employees were eligible to participate in the qualified plan. Benefits provided by our qualified pension plan were based on years of service and employees remuneration over their employment period. Pension costs are funded in accordance with the provisions of the Internal Revenue Code. We also maintain a non-qualified, non-contributory defined benefit pension plan for certain employees. This excess plan provided benefits that would otherwise be provided under the qualified pension plan but for maximum benefit and compensation limits applicable under federal tax law. The cost associated with the excess plan is determined using the same actuarial methods and assumptions as those used for our qualified pension plan.

On June 15, 2011, we decided to freeze participation and benefit accruals under our pension plans, primarily to reduce some of the volatility in earnings that can accompany the maintenance of a defined benefit plan. The freeze was effective July 31, 2011. Compensation earned by employees up to July 31, 2011 shall be used for purposes of calculating benefits under our pension plan but there will be no future benefit accruals after this date. Participants as of July 31, 2011 will continue to earn vesting credit with respect to their frozen accrued benefits as they continue to work. We accounted for the freeze of our pension plans as of June 30, 2011, which resulted in a curtailment loss of $45,000 and reduced our liability for pension benefits and increased comprehensive earnings by $654,000.

The components of net periodic pension cost are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Service cost	$ 11,000	$ 78,000	$ 145,000	$ 236,000
Interest cost	121,000	115,000	371,000	345,000
Expected return on plan assets	(137,000)	(120,000)	(390,000)	(360,000)
Curtailment loss			45,000	
Recognized net actuarial loss	28,000	31,000	112,000	94,000
Net amortization		7,000	10,000	19,000
	$ 23,000	$ 111,000	$ 293,000	$ 334,000

We expect to contribute approximately $700,000 to our pension plans in 2011, of which $318,000 and $447,000 was contributed during the three and nine-month periods ended September 30, 2011, respectively. We contributed $65,000 and $130,000 to our pension plans during the three and nine-month periods ended September 30, 2010, respectively.

NOTE 8 Stockholders Equity

Changes in the components of stockholders equity are as follows (in thousands):

Common Stock	Class A Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss

Balance at December 31, 2010	$	1,820	$	1,851	$	101,541	$	(49,167)	$	(1,538)
Net loss								(14,246)		
Issuance of restricted stock awards, net of forfeitures		12				(12)				
Stock-based compensation						317				
Repurchase and retirement of common stock		(3)				(49)				
Unrealized loss on available-for-sale securities, net of income tax benefit of $23										(34)
Change in net actuarial loss and prior service cost, net of income tax expense of $327										450
Balance at September 30, 2011	$	1,829	$	1,851	$	101,797	$	(63,413)	$	(1,122)

As of September 30, 2011 and December 31, 2010, accumulated other comprehensive loss, net of income taxes, consists of the following:

	September 30, 2011	December 31, 2010
Net actuarial loss and prior service cost not yet recognized in net periodic benefit cost, net of income tax benefit of $739,000 and $1,066,000, respectively	$ (1,102,000)	$ (1,552,000)
Accumulated unrealized (loss) gain on available-for-sale securities, net of income tax (benefit) expense of ($13,000) and $10,000, respectively	(20,000)	14,000
Accumulated other comprehensive loss	$ (1,122,000)	$ (1,538,000)

On July 29, 2009, our Board of Directors voted to suspend the declaration of regular quarterly cash dividends on all classes of our common stock. Dividends are prohibited by our credit facility.

On July 28, 2004, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. No purchases of our equity securities were made pursuant to this authorization during the nine months ended September 30, 2011 or 2010. At September 30, 2011, we had remaining repurchase authority of 1,634,607 shares. At present we are not permitted to make such purchases under our credit facility.

During the nine-month periods ended September 30, 2011 and 2010, we purchased and retired 29,575 and 23,814 shares of our outstanding common stock at an average purchase price of $1.76 and $2.10 per share, respectively. No purchases were made during the three months ended September 30, 2011 or 2010. These purchases were made from employees in connection with the vesting of restricted stock awards under our 2004 Stock Incentive Plan and were not pursuant to the aforementioned repurchase authorization. Since the vesting of a restricted stock award is a taxable event to our employees for which income tax withholding is required, the plan allows employees to surrender to us some of the shares that would otherwise have vested in satisfaction of their tax liability. The surrender of these shares is treated by us as a purchase of the shares.

NOTE 9 Fair Value Measurements

Our financial instruments are classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

The following table summarizes the valuation of our financial instrument pricing levels as of September 30, 2011 and December 31, 2010:

	Total	Level 1	Level 2	Level 3
September 30, 2011				
Available-for-sale securities	$ 494,000	$ 494,000	$	$
December 31, 2010				
Available-for-sale securities	$ 527,000	$ 527,000	$	$

Our investments in available-for-sale securities consist of mutual funds. These investments are included in other non-current assets on our consolidated balance sheets.

The carrying amounts of other financial instruments reported in the balance sheet for current assets and current liabilities approximate their fair values because of the short maturity of these instruments.

At September 30, 2011 and December 31, 2010, there was $34,980,000 and $38,200,000 outstanding under our revolving credit agreement. The borrowings under our revolving credit agreement bear interest at the variable rate described in NOTE 6 Long-Term Debt and therefore we believe approximate fair value.

The following table summarizes the valuation of our pricing levels for non-financial assets that are measured at fair value on a non-recurring basis as of September 30, 2011:

	Total	Level 1	Level 2	Level 3	Losses for the nine months ended September 30, 2011
Long-lived assets held and used	$ 30,329,000	$	$	$ 30,329,000	$ 15,687,000

Fair value of the long-lived assets held and used was determined using a valuation methodology which gave specific consideration to the value of the owned real estate.

The following table summarizes the valuation of our pricing levels for non-financial assets that are measured at fair value on a non-recurring basis as of December 31, 2010:

	Total	Level 1	Level 2	Level 3	Losses for the nine months ended September 30, 2010
Current assets held for sale	$ 1,875,000	$ 1,875,000	$	$	$
Long-lived assets held and used	$ 1,500,000	$	$	$ 1,500,000	$ 7,964,000

Fair value of the current assets held for sale was determined based on the sale price agreed to by the buyer and seller. Fair value of the long-lived assets held and used was determined using a valuation methodology which gave specific consideration to the value of the owned real estate.

NOTE 10 Related Party Transactions

During the three and nine-month periods ended September 30, 2011 and 2010, Dover Downs Gaming & Entertainment, Inc. (Gaming), a company related through common ownership, allocated costs of $476,000 and $1,473,000, and $494,000 and $1,470,000, respectively, to us for certain administrative and operating services, including leased space. We allocated certain administrative and operating service costs of $66,000 and $267,000, and $44,000 and $169,000, respectively, to Gaming for the three and nine-month periods ended September 30, 2011 and 2010. The allocations were based on an analysis of each company s share of the costs. In connection with our 2011 and 2010 NASCAR event weekends at Dover International Speedway, Gaming provided certain services, primarily catering, for which we were invoiced $0 and $416,000, and $458,000 and $928,000 during the three and nine-month periods ended September 30, 2011 and 2010, respectively. Additionally, we

invoiced Gaming $0 and $246,000, and $126,000 and $353,000 during the three and nine-month periods ended September 30, 2011 and 2010, respectively, for a skybox suite, tickets and other services to the events. There were no billings by either company for the fall NASCAR event weekend in the third quarter of 2011 because the NASCAR Sprint Cup Series event and the NASCAR Nationwide Series event usually held in the third quarter were held in the fourth quarter of 2011. As of September 30, 2011 and December 31, 2010, our consolidated balance sheets included a $4,000 and $18,000 payable to Gaming, respectively, for the aforementioned items. We settled these items in October 2011 and January 2011, respectively. The net costs incurred by each company for these services are not necessarily indicative of the costs that would have been incurred if the companies had been unrelated entities and/or had otherwise independently managed these functions; however, management believes that these costs are reasonable.

Prior to the spin-off of Gaming from our company in 2002, both companies shared certain real property in Dover, Delaware. At the time of the spin-off, some of this real property was transferred to Gaming to ensure that the real property holdings of each company was aligned with its past uses and future business needs. During its harness racing season, Gaming has historically used the 5/8-mile harness racing track that is located on our property and is on the inside of our one-mile motorsports superspeedway. In order to continue this historic use, we granted a perpetual easement to the harness track to Gaming at the time of the spin-off. This perpetual easement allows Gaming to have exclusive use of the harness track during the period beginning November 1 of each year and ending

April 30 of the following year, together with set up and tear down rights for the two weeks before and after such period. The easement requires that Gaming maintain the harness track but does not require the payment of any rent.

Various easements and agreements relative to access, utilities and parking have also been entered into between us and Gaming relative to our respective Dover, Delaware facilities. We pay rent to Gaming for the lease of our principal executive office space. Gaming also allows us to use its indoor grandstands in connection with our two annual motorsports weekends. This occasional grandstand use is not material to us and Gaming does not assess rent for it; Gaming may also discontinue our use at its discretion.

Henry B. Tippie, Chairman of our Board of Directors, controls in excess of fifty percent of our voting power. Mr. Tippie s voting control emanates from his direct and indirect holdings of common stock and Class A common stock and from his status as trustee of the RMT Trust, our largest stockholder. This means that Mr. Tippie has the ability to determine the outcome of the election of directors and to determine the outcome of many significant corporate transactions, many of which only require the approval of a majority of our voting power.

Patrick J. Bagley, Kenneth K. Chalmers, Denis McGlynn, Jeffrey W. Rollins, John W. Rollins, Jr., R. Randall Rollins, Richard K. Struthers and Henry B. Tippie are all Directors of Dover Motorsports, Inc. and Gaming. Denis McGlynn is the President and Chief Executive Officer of both companies, Klaus M. Belohoubek is the Senior Vice President General Counsel and Secretary of both companies and Timothy R. Horne is the Senior Vice President Finance and Chief Financial Officer of both companies. Mr. Tippie controls in excess of fifty percent of the voting power of Gaming.

NOTE 11 Commitments and Contingencies

In September 1999, the Sports Authority of the County of Wilson (Tennessee) issued $25,900,000 in Variable Rate Tax Exempt Infrastructure Revenue Bonds, Series 1999, to acquire, construct and develop certain public infrastructure improvements which benefit the operation of Nashville Superspeedway, of which $20,300,000 was outstanding at September 30, 2011. Annual principal payments range from $700,000 in September 2012 to $1,600,000 in 2029 and are payable solely from sales taxes and incremental property taxes generated from the facility. These bonds are direct obligations of the Sports Authority and therefore have historically not been recorded on our consolidated balance sheet. If the sales taxes and incremental property taxes are insufficient for the payment of principal and interest on the bonds, we would become responsible for the difference. In the event we were unable to make the payments, they would be made pursuant to a $20,640,000 irrevocable direct-pay letter of credit issued by our bank group. We are exposed to fluctuations in interest rates for these bonds. A significant increase in interest rates could result in us being responsible for debt service payments not covered by the sales and incremental property taxes generated from the facility.

As of September 30, 2011 and December 31, 2010, $1,541,000 and $1,200,000, respectively, was available in the sales and incremental property tax fund maintained by the Sports Authority to pay the remaining principal and interest due under the bonds. During the first nine months of 2011, we paid $1,075,000 into the sales and incremental property tax fund and $734,000 was deducted from the fund for principal and interest payments. If we fail to maintain the letter of credit that secures the bonds or we allow an uncured event of default to exist under our reimbursement agreement relative to the letter of credit, the bonds would be immediately redeemable.

On August 3, 2011, we announced that our wholly-owned subsidiary Nashville Superspeedway had notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. Since the facility will no longer generate sales taxes from these events, we have estimated that a portion of the debt service will not be covered by applicable taxes. As a result, we recorded a $2,245,000 provision for contingent obligation reflecting the estimated portion of the Wilson County bonds debt service that will not be covered

by applicable taxes. An increase in interest rates would result in an increase in the portion of debt service not covered by applicable taxes and therefore an increase in our liability.

We are also a party to ordinary routine litigation incidental to our business. Management does not believe that the resolution of any of these matters is likely to have a material adverse effect on our results of operations, financial position or cash flows.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is based upon and should be read together with the consolidated financial statements and notes thereto included elsewhere in this document.

We classify our revenues as admissions, event-related, broadcasting and other. Admissions includes ticket sales for all our events. Event-related revenue includes amounts received from sponsorship fees; luxury suite rentals; hospitality tent rentals and catering; concessions and souvenir sales and vendor commissions for the right to sell concessions and souvenirs at our facilities; sales of programs; track rentals and other event-related revenues. Broadcasting revenue includes rights fees obtained for television and radio broadcasts of events held at our speedways and ancillary media rights fees.

Revenues pertaining to specific events are deferred until the event is held. Concession revenue from concession stand sales and sales of souvenirs are recorded at the time of sale. Revenues and related expenses from barter transactions in which we receive advertising or other goods or services in exchange for sponsorships of motorsports events are recorded at fair value. Barter transactions accounted for $95,000 and $400,000, and $140,000 and $540,000 of total revenues for the three and nine-month periods ended September 30, 2011 and 2010, respectively.

Expenses that are not directly related to a specific event are recorded as incurred. Expenses that specifically relate to an event are deferred until the event is held, at which time they are expensed. These expenses include prize and point fund monies and sanction fees paid to various sanctioning bodies, including NASCAR, labor, marketing, cost of goods sold for merchandise and souvenirs, and other expenses associated with the promotion of our racing events.

Results of Operations

Three Months Ended September 30, 2011 vs. Three Months Ended September 30, 2010

We promoted two major events during the third quarter of 2011 compared to three major events during the third quarter of 2010. We promoted a NASCAR Sprint Cup Series event and a NASCAR Nationwide Series event at our Dover International Speedway facility in the third quarter of 2010; however, these events were held in the fourth quarter of 2011. The majority of our revenues are derived from our two NASCAR Sprint Cup Series events.

Admissions revenue was $752,000 in the third quarter of 2011 as compared to $7,798,000 in the third quarter of 2010. The $7,046,000 decrease was primarily related to changes in our major motorsports event schedule. Partially offsetting this decrease was the promotion of a NASCAR Nationwide Series event at our Nashville Superspeedway facility in the third quarter of 2011 which was held in the second quarter of 2010.

Event-related revenue was $1,321,000 in the third quarter of 2011 as compared to $5,487,000 in the third quarter of 2010. The $4,166,000 decrease was primarily related to the changes in our major motorsports event schedule.

Broadcasting revenue decreased to $841,000 in the third quarter of 2011 from $11,538,000 in the third quarter of 2010. The decrease was due to the changes in our major motorsports event schedule.

Operating and marketing expenses were $4,382,000 in the third quarter of 2011 as compared to $13,428,000 in the third quarter of 2010. The decrease was primarily due to the changes in our major motorsports event schedule.

We concluded in the third quarter of 2011 that it was necessary for us to review the carrying value of the long-lived assets of our Nashville facility for impairment. Based on the results of this analysis, we recorded a $15,687,000 non-cash impairment charge in the third quarter of 2011 to write-down the carrying value of long-lived assets at our Nashville facility to fair value.

General and administrative expenses decreased to $2,200,000 in the third quarter of 2011 as compared to $2,672,000 in the third quarter of 2010. The decrease was primarily related to lower wages and benefit costs at our

Dover facility, the expensing of costs relating to our terminated merger agreement with Dover Downs Gaming & Entertainment, Inc. (a company related through common ownership) during the third quarter of 2010 and to a lesser extent the sale of our Memphis facility which was completed in January 2011.

Depreciation and amortization expense decreased to $992,000 in the third quarter of 2011 as compared to $1,508,000 in the third quarter of 2010. The decrease was primarily related to the impairment of all depreciable assets of our Nashville facility in the third quarter of 2011.

Net interest expense was $381,000 in the third quarter of 2011 as compared to a negative $38,000 in the third quarter of 2010. We reversed $120,000 and $856,000 in third quarter of 2011 and 2010, respectively, of previously recorded interest expense on uncertain income tax positions which are no longer subject to examination. Excluding the interest expense and reversals we recorded related to uncertain income tax positions, our net interest expense was $501,000 in the third quarter of 2011 as compared to $808,000 in the third quarter of 2010. The decrease was due primarily to a lower average interest rate on our new credit facility entered into on April 12, 2011 as well as lower average borrowings.

On August 3, 2011, we announced that our wholly-owned subsidiary Nashville Superspeedway had notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. Since the facility will no longer generate sales taxes from these events, we have estimated that a portion of the debt service will not be covered by applicable taxes. As a result, we recorded a $2,245,000 provision for contingent obligation reflecting the estimated portion of the Wilson County bonds debt service that will not be covered by applicable taxes.

Our effective income tax rates for the third quarters of 2011 and 2010 were 36.5% and 42.0%, respectively. We expect our effective income tax rate to approximate 31.5% for the year ending December 31, 2011. The change in our effective income tax rate from the prior year rate was primarily due to the changes in the mix of taxable income and losses within our subsidiaries. One subsidiary had state taxable income which resulted in state income tax expense; however, other subsidiaries with state tax losses have no state income tax benefits based upon the valuation allowances that we have recorded in connection with state net operating loss carryforwards.

Nine Months Ended September 30, 2011 vs. Nine Months Ended September 30, 2010

We promoted seven major events during the first nine months of 2011 compared to nine major events during the first nine months of 2010. We promoted a NASCAR Sprint Cup Series event and a NASCAR Nationwide Series event at our Dover International Speedway facility in the third quarter of 2010 that were held in the fourth quarter of 2011.

Admissions revenue was $7,468,000 in the first nine months of 2011 as compared to $16,363,000 in the first nine months of 2010. The $8,895,000 decrease was primarily related to a change in our major motorsports event schedule and to a lesser extent lower admissions revenue at our May NASCAR event weekend at Dover International Speedway. We believe the decrease in attendance at our May Dover weekend was attributable primarily to the general downturn in economic conditions, including those affecting disposable consumer income and corporate budgets such as employment and business conditions. We believe that adverse economic trends, particularly credit availability, the decline in consumer confidence, continued high unemployment and high gas prices have increasingly contributed to the decrease in attendance.

Event-related revenue was $5,899,000 in the first nine months of 2011 as compared to $11,588,000 in the first nine months of 2010. The $5,689,000 decrease was primarily related to the change in our major motorsports event schedule at our Dover International Speedway facility and to a lesser extent lower luxury suite rentals, hospitality tent rentals, catering revenues, expo space revenues and concessions and souvenir sales at our May NASCAR event weekend at Dover International Speedway as a result of the lower attendance and the aforementioned economic conditions.

Broadcasting revenue decreased to $15,956,000 in the first nine months of 2011 from $26,872,000 in the first nine months of 2010. The decrease was due to the change in our major motorsports event schedule at our Dover International Speedway facility. Partially offsetting this decrease was a contracted increase in broadcasting revenue for the individual major motorsports events we promoted during the first nine months of 2011.

Operating and marketing expenses were $21,158,000 in the first nine months of 2011 as compared to $33,020,000 in the first nine months of 2010. The decrease was primarily due to the change in our major motorsports event schedule at our Dover International Speedway facility and to a lesser extent cost cutting measures and lower attendance that reduced operating expenses at our May NASCAR event weekend at Dover International Speedway.

We concluded in the third quarter of 2011 that it was necessary for us to review the carrying value of the long-lived assets of our Nashville facility for impairment. Based on the results of this analysis, we recorded a $15,687,000 non-cash impairment charge in the third quarter of 2011 to write-down the carrying value of long-lived assets at our Nashville facility to fair value.

General and administrative expenses were $6,497,000 in the first nine months of 2011 and $7,496,000 in the first nine months of 2010. The decrease was primarily related to lower wages and benefit costs at our Dover facility, lower expenses at our Nashville facility, the expensing of costs relating to our terminated merger agreement with Dover Downs Gaming & Entertainment, Inc. during the third quarter of 2010 and to a lesser extent the sale of our Memphis facility which was completed in January 2011.

Depreciation and amortization expense decreased to $3,745,000 in the first nine months of 2011 as compared to $4,325,000 in the first nine months of 2010. The decrease was primarily related to the impairment of all depreciable assets of our Nashville facility in the third quarter of 2011.

Net interest expense was $1,814,000 in the first nine months of 2011 as compared to $1,513,000 in the first nine months of 2010. We reversed $120,000 and $856,000 in 2011 and 2010, respectively, of previously recorded interest expense on uncertain income tax positions which are no longer subject to examination. Excluding the interest expense and reversals we recorded related to uncertain income tax positions, our net interest expense was $1,930,000 in the first nine months of 2011 as compared to $2,250,000 in the first nine months of 2010. The decrease was due primarily to lower average borrowings as well as a lower average interest rate on our new credit facility entered into on April 12, 2011, partially offset by the higher amortization of credit facility amendment fees.

We recorded a $2,245,000 provision for contingent obligation reflecting the estimated portion of the Wilson County bonds debt service that will not be covered by applicable taxes.

Our effective income tax rates for the first nine months of 2011 and 2010 were 34.9% and 45.9%, respectively. We expect our effective income tax rate to approximate 31.5% for the year ending December 31, 2011. The change in our effective income tax rate from the prior year rate was primarily due to the changes in the mix of taxable income and losses within our subsidiaries. One subsidiary had state taxable income which resulted in state income tax expense; however, other subsidiaries with state tax losses have no state income tax benefits based upon the valuation allowances that we have recorded in connection with state net operating loss carryforwards.

Liquidity and Capital Resources

Our operations are seasonal in nature with a majority of our motorsports events occurring during the second and fourth quarters this year. However, our cash flows from operating activities are more evenly spread throughout the year, primarily due to the impact of advance ticket sales and other event-related cash receipts, such as sponsorship and luxury suite rentals.

Net cash provided by operating activities was $2,390,000 for the nine months ended September 30, 2011 as compared to net cash used in operating activities of $386,000 for the nine months ended September 30, 2010. The increase was primarily due to reduced operating losses at our Midwest facilities.

Net cash provided by investing activities was $1,643,000 for the nine months ended September 30, 2011 as compared to $5,159,000 for the nine months ended September 30, 2010. Capital expenditures were $229,000 for the nine months ended September 30, 2011 compared with $469,000 for the nine months ended September 30, 2010. The 2011 additions related primarily to replacement of SAFER barriers at our Nashville facility and improvements to our luxury skybox suites at our Dover facility. The 2010 additions related primarily to payments for concessions equipment and facility improvements. We completed the sale of our Memphis facility in January 2011 which resulted in additional net proceeds of $1,875,000. The decrease in our restricted cash accounts was $5,333,000 for

the nine months ended September 30, 2010. On July 21, 2010, we redeemed all of the outstanding SWIDA bonds and the remaining restricted cash was subsequently returned to us by the trustee.

Net cash used in financing activities was $3,703,000 for the nine months ended September 30, 2011 as compared to $4,648,000 for the nine months ended September 30, 2010. We had net repayments on our outstanding line of credit of $3,220,000 in the first nine months of 2011 as compared to $1,200,000 in the first nine months of 2010. Repayments of our outstanding SWIDA bonds were $2,986,000 for the first nine months of 2010. We incurred $167,000 of premiums and fees associated with the aforementioned SWIDA bond redemption during the third quarter of 2010. On April 12, 2011, we entered into a new credit agreement and paid $431,000 in closing costs and other bank fees.

At September 30, 2011, Dover Motorsports, Inc. and its wholly owned subsidiaries Dover International Speedway, Inc. and Nashville Speedway, USA, Inc., as co-borrowers, had a $65,000,000 secured credit agreement with a bank group. There was $34,980,000 outstanding under the credit facility at September 30, 2011, at an interest rate of approximately 3%. The maximum borrowing limit under the facility reduces to $60,000,000 as of March 31, 2012 and $55,000,000 as of March 31, 2013 and the facility expires April 12, 2014. The credit facility provides for seasonal funding needs, capital improvements, letter of credit requirements and other general corporate purposes. Interest is based upon LIBOR plus a margin that varies between 200 and 325 basis points depending on the leverage ratio (275 basis points at September 30, 2011). The terms of the credit facility contain certain covenants including minimum interest coverage and maximum funded debt to earnings before interest, taxes, depreciation and amortization. Material adverse changes in our results of operations could impact our ability to maintain financial ratios necessary to satisfy these requirements. We expect to be in compliance with the financial covenants, and all other covenants, for all measurement periods during the next twelve months. In addition, the credit agreement includes a material adverse change clause, prohibits the payment of dividends by us and provides the lenders with a first lien on all of our assets. The credit facility also provides that if we default under any other loan agreement, that would be a default under this facility. At September 30, 2011, we were in compliance with the terms of the credit facility. After consideration of stand-by letters of credit outstanding, the remaining maximum borrowings available pursuant to the credit facility were $9,380,000 at September 30, 2011; however, in order to maintain compliance with the required quarterly debt covenant calculations as of September 30, 2011 $7,313,000 could have been borrowed as of that date.

On August 3, 2011, we announced that our wholly-owned subsidiary Nashville Superspeedway had notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. We continue to conduct the weekly events we have scheduled for the remainder of 2011 and are currently evaluating all of our options for the facility. We incurred a non-cash impairment charge of $15,687,000 and severance costs of approximately $150,000 in the third quarter of 2011 as a result of this event (see NOTE 4 Impairment Charge of the consolidated financial statements included elsewhere in this document for further discussion). Additionally, since the facility will no longer generate sales taxes from these events we have estimated that a portion of the debt service will not be covered by applicable taxes. As a result, we recorded a $2,245,000 provision for contingent obligation reflecting the estimated portion of the Wilson County bonds debt service that will not be covered by applicable taxes. (see NOTE 11 Commitments and Contingencies of the consolidated financial statements included elsewhere in this document for further discussion). An increase in interest rates would result in an increase in the portion of debt service not covered by applicable taxes and therefore an increase in our liability.

In November 2010, we announced the closing of our Gateway facility. The Gateway facility is located on approximately 290 acres of land in Madison, Illinois and the racetrack is primarily on leased property. We had long-term leases for approximately 150 acres with four landlords. We also own approximately 140 acres near the Gateway facility. In February 2011, three of the four landlords agreed to terminate the land leases in exchange for 18.5 acres of owned real estate and our agreement to abandon all improvements and certain personal property (including the racetrack) on the leased land.

We closed our Memphis Motorsports Park facility in October 2009 and executed an agreement to sell it in December 2010. The real estate sale closed on January 31, 2011. After closing costs and including the proceeds from the separate sale of all personal property at the facility in December 2010, our net proceeds were approximately $2,000,000, all of which was used to pay down indebtedness of the Memphis facility.

Cash provided by operating activities is expected to substantially fund our capital expenditures. Based on current business conditions, we expect to spend approximately $25,000 $50,000 on capital expenditures for the remainder of 2011. Additionally, we expect to contribute approximately $700,000 to our pension plans for 2011, of which $447,000 was contributed in the first nine months of 2011. We expect continued cash flows from operating activities and funds available from our credit agreement to provide for our working capital needs and capital spending requirements at least through the next twelve months and also provide for our long-term liquidity.

Contractual Obligations

At September 30, 2011, we had the following contractual obligations and other commercial commitments:

	Payments Due by Period				
	Total	**2011**	**2012 2013**	**2014 2015**	**Thereafter**
Revolving line of credit	$ 34,980,000	$	$	$ 34,980,000	$
Estimated interest payments on revolving line of credit(a)	2,637,000	261,000	2,085,000	291,000	
Contingent obligation(b)	2,245,000				2,245,000
Operating leases	124,000	24,000	72,000	27,000	1,000
Pension contributions(c)	253,000	253,000			
Total contractual cash obligations	$ 40,239,000	$ 538,000	$ 2,157,000	$ 35,298,000	$ 2,246,000

(a) The future interest payments on our revolving credit agreement were estimated using the current outstanding principal as of September 30, 2011 and interest rates under our credit agreement entered into on April 12, 2011.

(b) In September 1999, the Sports Authority of the County of Wilson (Tennessee) issued $25,900,000 in Variable Rate Tax Exempt Infrastructure Revenue Bonds, Series 1999, to acquire, construct and develop certain public infrastructure improvements which benefit the operation of Nashville Superspeedway, of which $20,300,000 was outstanding at September 30, 2011. Annual principal payments range from $700,000 in September 2012 to $1,600,000 in 2029 and are payable solely from sales taxes and incremental property taxes generated from the facility. These bonds are direct obligations of the Sports Authority and therefore have historically not been recorded on our consolidated balance sheet. If the sales taxes and incremental property taxes are insufficient for the payment of principal and interest on the bonds, we would become responsible for the difference. We are exposed to fluctuations in interest rates for these bonds. A significant increase in interest rates could result in us being responsible for debt service payments not covered by the sales and incremental property taxes generated from the facility. In the event we were unable to make the payments, they would be made pursuant to a $20,640,000 irrevocable direct-pay letter of credit issued by our bank group.

As of September 30, 2011 and December 31, 2010, $1,541,000 and $1,200,000, respectively, was available in the sales and incremental property tax fund maintained by the Sports Authority to pay the remaining principal and interest due under the bonds. During the first nine months of 2011, we paid $1,075,000 into the sales and incremental property tax fund and $734,000 was deducted from the fund for principal and interest payments. If we fail to maintain the letter of credit that secures the bonds or we allow an uncured event of default to exist under our reimbursement agreement relative to the letter of credit, the bonds would be immediately redeemable.

On August 3, 2011, we announced that our wholly-owned subsidiary Nashville Superspeedway had notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. As a result, we recorded a $2,245,000 provision for contingent obligation reflecting the estimated portion of the Wilson County bonds debt service that will not be covered by

applicable taxes. Based on current projections, our first debt service payment would be due in 2021. An increase in interest rates would result in an increase in the portion of debt service not covered by applicable taxes and therefore an increase in our liability.

(c) We expect to contribute approximately $700,000 to our pension plans for 2011, of which $447,000 was contributed in the first nine months of 2011. Effective July 31, 2011, we froze our pension plans which will result in reduced contributions after 2011.

Related Party Transactions

See NOTE 10 Related Party Transactions of the consolidated financial statements included elsewhere in this document.

Critical Accounting Policies

The accounting policies described below are those we consider critical in preparing our consolidated financial statements. These policies include significant estimates made by management using information available at the time the estimates are made. As described below, these estimates could change materially if different information or assumptions were used.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. As of September 30, 2011, our valuation allowance net of federal income taxes was $12,180,000, which increased by $1,768,000 in the first nine months of 2011, on deferred tax assets related to state net operating loss carry-forwards. These state net operating losses are related to our Midwest facilities that have not produced taxable income. We have considered ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. In the event we were to determine that we would be able to realize all or a portion of these deferred tax assets, an adjustment to the valuation allowance would increase earnings in the period such determination was made. Likewise, should we determine that we would not be able to realize all or a portion of our remaining deferred tax assets in the future, an adjustment to the valuation allowance would be charged to earnings in the period such determination was made.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided for financial reporting purposes using the straight-line method over estimated useful lives ranging from 3 to 10 years for furniture, fixtures and equipment and up to 40 years for facilities. These estimates require assumptions that are believed to be reasonable. We perform reviews for impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. An impairment loss is measured as the amount by which the carrying amount of the asset exceeds its fair value. Generally, fair value is determined using valuation techniques such as the comparable sales approach. Historically the impairment assessment for track facilities has also considered the cost approach valuation technique, which gives specific consideration to the value of the track land plus the contributory value to the improvements. The primary economic assumptions used in the valuation techniques include: (i) land value which is estimated by comparable transactions; and (ii) that the highest and best use for the facilities is potential real estate development. Changes to these assumptions can have a significant effect on the outcome of future impairment tests and as a result, future valuations could differ significantly from current estimates.

Accrued Pension Cost

On June 15, 2011, we decided to freeze participation and benefit accruals under our pension plans. The freeze was effective July 31, 2011. The benefits provided by our defined-benefit pension plans are based on years of service and employee s remuneration through July 31, 2011. Accrued pension costs are developed using actuarial principles and assumptions which consider a number of factors, including estimates for the discount rate, assumed rate of compensation increase, and expected long-term rate of return on assets. Changes in these estimates would impact the amounts that we record in our consolidated financial statements.

Recent Accounting Pronouncements

See NOTE 3 Summary of Significant Accounting Policies of the consolidated financial statements included elsewhere in this document for a description of recent accounting pronouncements including, if applicable, the respective expected dates of adoption and effects on results of operations, financial condition and cash flows.

Factors That May Affect Operating Results; Forward-Looking Statements

This report and the documents incorporated by reference may contain forward-looking statements. In Item 1A of this report, we disclose the important factors that could cause our actual results to differ from our expectations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that relevant, material information is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation as of September 30, 2011, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information we are required to disclose in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

We are a party to ordinary routine litigation incidental to our business. Management does not believe that the resolution of any of these matters is likely to have a material adverse effect on our results of operations, financial condition or cash flows.

Item 1A. Risk Factors

In addition to historical information, this report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, relating to our financial condition, profitability, liquidity, resources, business outlook, proposed acquisitions, market forces, corporate strategies, consumer preferences, contractual commitments, legal matters, capital requirements and other matters. Documents incorporated by reference into this report may also contain forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. To comply with the terms of the safe harbor, we note that a variety of factors could cause our actual results and experience to differ substantially from the anticipated results or other expectations expressed in our forward-looking statements. When words and expressions such as: believes, expects, anticipates, estimates, plans, intends, objectives,

aims, projects, forecasts, possible, seeks, may, could, should, might, likely or similar words or expressions are used, as well a our view, there can be no assurance or there is no way to anticipate with certainty, forward-looking statements may be involved.

In the section that follows below, in cautionary statements made elsewhere in this report, and in other filings we have made with the SEC, we list important factors that could cause our actual results to differ from our expectations. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors described below and other factors set forth in or incorporated by reference in this report.

These factors and cautionary statements apply to all future forward-looking statements we make. Many of these factors are beyond our ability to control or predict. Do not put undue reliance on forward-looking statements or project any future results based on such statements or on present or prior earnings levels.

Additional information concerning these, or other factors, which could cause the actual results to differ materially from those in our forward-looking statements is contained from time to time in our other SEC filings. Copies of those filings are available from us and/or the SEC.

Our Relationships With And The Success Of NASCAR Is Vital To Our Success In Motorsports

Our continued success in motorsports is dependent upon the success of NASCAR and our ability to secure favorable contracts with and maintain a good working relationship with them. NASCAR regularly issues and awards sanctioned events and their issuance depends, in large part, on maintaining good working relationships with NASCAR. Our NASCAR events are sanctioned on an annual basis with no contractual obligation to renew. By awarding a sanctioned event or a series of sanctioned events, NASCAR does not warrant, nor are they responsible for, the financial success of any sanctioned event. Our success is directly tied to our ability to negotiate favorable terms to our sanction agreements, including the amount of the sanction fee and purse, and our ability to continue to derive economic benefits from such agreements, such as our share of live broadcast revenues.

Our ability to obtain additional sanctioned events in the future and to negotiate favorable terms to our sanction agreements and the success of NASCAR in attracting drivers and teams, signing series sponsors and negotiating favorable television and/or radio broadcast rights is dependent on many factors which are largely outside of our control. As our success depends on the terms of our sanction agreements and the success of each event or series that we are promoting, a material change in the terms of a sanction agreement or a material adverse effect on NASCAR, such as the loss or defection of top drivers, the loss of significant series sponsors, or the failure to obtain favorable broadcast coverage or to properly advertise the event or series could result in a reduction in our revenues from live broadcast coverage, admissions, luxury suite rentals, sponsorships, hospitality, concessions and merchandise, which could have a material adverse effect on our business, financial condition and results of operations.

We Rely On Sponsorship Contracts To Generate Revenues

We receive a portion of our annual revenues from sponsorship agreements, including the sponsorship of our various events and venues, such as title, official product and promotional partner sponsorships, billboards, signage and skyboxes. We are continuously in negotiations with existing

sponsors and actively seeking new sponsors as there is significant competition for sponsorships. Some of our events may not secure a title sponsor every year, may not secure a sufficient number of sponsorships on favorable terms, or may not secure sponsorships sufficiently enough in advance of an event for maximum impact. Loss of our existing title sponsors or other major sponsorship agreements or failure to secure sponsorship agreements in the future on favorable terms could have a material adverse effect on our business, financial condition and results of operations.

Our Motorsports Events Face Intense Competition For Attendance, Television Viewership And Sponsorship

We compete with other auto speedways for the patronage of motor racing spectators as well as for sponsorships. Moreover, racing events sanctioned by different organizations are often held on the same dates at different tracks. The quality of the competition, type of racing event, caliber of the event, sight lines, ticket pricing, location and customer conveniences, among other things, distinguish the motorsports facilities. In addition, all of

our events compete with other sports and recreational events scheduled on the same dates. As a result, our revenues and operations are affected not only by our ability to compete in the motorsports promotion market, but also by the availability of alternative spectator sports events, forms of entertainment and changing consumer preferences.

General Market And Economic Conditions, Including Consumer And Corporate Spending, Could Negatively Affect Our Financial Results

Our financial results depend significantly upon a number of factors relating to discretionary consumer and corporate spending, including economic conditions affecting disposable consumer income and corporate budgets such as employment, business conditions, interest rates and taxation rates.

These factors can impact both attendance at our events and advertising and marketing dollars available from the motorsports industry s principal sponsors and potential sponsors. Economic and other lifestyle conditions such as illiquid consumer and business credit markets adversely affect consumer and corporate spending thereby impacting our growth, revenue and profitability. Unavailability of credit on favorable terms or increases in interest rates can adversely impact our operations, growth, development and capital spending plans. General economic conditions were significantly and negatively impacted by the September 11, 2001 terrorist attacks and the war in Iraq and could be similarly affected by any future attacks, by a terrorist attack at any mass gathering or fear of such attacks, or by other acts or prospects of war. Any future attacks or wars or related threats could also increase our expenses related to insurance, security or other related matters. A weakened economic and business climate, as well as consumer uncertainty and the loss of consumer confidence created by such a climate, could adversely affect our financial results.

The Sales Tax And Property Tax Revenues To Service The Revenue Bonds For Infrastructure Improvements At Nashville May Be Inadequate

In September 1999, the Sports Authority of the County of Wilson (Tennessee) issued $25,900,000 in revenue bonds to build local infrastructure improvements which benefit the operation of Nashville Superspeedway, of which $20,300,000 was outstanding on September 30, 2011. Debt service on the bonds is payable solely from sales taxes and incremental property taxes generated from the facility. As of September 30, 2011 and December 31, 2010, $1,541,000 and $1,200,000, respectively, was available in the sales and incremental property tax fund maintained by the Sports Authority to pay the remaining principal and interest due under the bonds. During the first nine months of 2011, we paid $1,075,000 into the sales and incremental property tax fund and $734,000 was deducted from the fund for principal and interest payments. These bonds are direct obligations of the Sports Authority and therefore have historically not been recorded on our consolidated balance sheet. In the event the sales taxes and incremental property taxes are insufficient to cover the payment of principal and interest on the bonds, we would become responsible for the difference. We are exposed to fluctuations in interest rates for these bonds. A significant increase in interest rates could result in us being responsible for debt service payments not covered by the sales and incremental property taxes generated from the facility. In the event we were unable to make the payments, they would be made under a $20,640,000 irrevocable direct-pay letter of credit issued by our bank group. We would be responsible to reimburse the banks for any drawings made under the letter of credit. Such an event could have a material adverse effect on our business, financial condition and results of operations and compliance with debt covenants.

On August 3, 2011, we announced that our wholly-owned subsidiary Nashville Superspeedway had notified NASCAR that it will not seek 2012 sanction agreements for its two Nationwide Series and two Camping World Truck Series events. Since the facility will no longer generate sales taxes from these events, we have estimated that a portion of the debt service will not be covered by applicable taxes. As a result, we recorded a $2,245,000 provision for contingent obligation reflecting the estimated portion of the Wilson County bonds debt service that will not be covered by applicable taxes. An increase in interest rates would result in an increase in the portion of debt service not covered by applicable taxes and therefore an increase in our liability.

23

We Have A Significant Amount Of Indebtedness

As of September 30, 2011, we had total outstanding long-term debt of $34,980,000 under our credit facility. This is in addition to the Nashville Bonds described above. This indebtedness and any future increases in our outstanding borrowings could:

- make it more difficult for us to satisfy our debt obligations;
- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- increase our costs or difficulties in refinancing or replacing our outstanding obligations;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, dividends and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- subject us to the risks that interest rates and our interest expense will increase; and
- place us at a competitive disadvantage compared to competitors that have less debt.

In addition, our credit facility is secured by substantially all of our assets and contains financial ratios that we are required to meet and other restrictive covenants that, among other things, limit or restrict our ability to pay dividends, borrow additional funds, make acquisitions, create liens on our properties and make investments.

Our ability to meet these financial ratios and covenants can be affected by events beyond our control, and there can be no assurance that we will be able to meet them. If there were an event of default under our credit facility, the lenders could elect to declare all amounts outstanding to be immediately due and payable. If we were unable to repay these amounts, the lenders could proceed against the collateral granted to them to secure the indebtedness.

The Seasonality Of Our Motorsports Events Increases The Variability Of Quarterly Earnings

Our business has been, and is expected to remain, seasonal given that it depends on our outdoor events for a substantial portion of revenues. We derive a substantial portion of our motorsports revenues from admissions, event-related and broadcasting revenue attributable to our NASCAR-sanctioned events at Dover, Delaware which are held in May and October this year. Total revenues from these events were approximately 90% of total revenues for 2010. We estimate that approximately 90% of our total revenues will be generated by our Dover facility in 2011. This has been offset to some degree by our other motorsports events, but quarterly earnings will vary. All of our operating earnings are derived from our Dover facility.

All Of Our Motorsports Revenue is Attributable to One Location

Beginning in 2012, all of our motorsports revenue will come from Dover International Speedway in Dover, Delaware. Any prolonged disruption of operations at this facility due to damage or destruction, inclement weather, natural disaster, work stoppages or other reasons could adversely affect our financial condition and results of operations. We maintain property and business interruption insurance to protect against certain types of disruption, but there can be no assurance that the proceeds of such insurance would be adequate to repair or rebuild our facilities or to otherwise compensate us for lost profits.

Our Insurance May Not Be Adequate To Cover Catastrophic Incidents

We maintain insurance policies that provide coverage within limits that are sufficient, in the opinion of management, to protect us from material financial loss incurred in the ordinary course of business. We also purchase special event insurance for motorsports events to protect against race-related liability. However, there can be no assurance that this insurance will be adequate at all times and in all circumstances. If we are held liable for damages beyond the scope of our insurance coverage, including punitive damages, our business, financial condition and results of operations could be materially and adversely affected.

In addition, sanctioning bodies could impose more stringent rules and regulations for safety, security and operational activities. Such regulations have included, for example, the installation of new retaining walls at our facilities, which have increased our capital expenditures, and increased security procedures which have increased our operational expenses.

Bad Weather Can Have An Adverse Financial Impact On Our Motorsports Events

We sponsor and promote outdoor motorsports events. Weather conditions, or even the forecast of poor weather, can affect sales of tickets, concessions and merchandise at these events. Although we sell many tickets well in advance of the outdoor events and these tickets are issued on a non-refundable basis, poor weather may adversely affect additional ticket sales and concessions and merchandise sales, which could have an adverse effect on our business, financial condition and results of operations.

We do not currently maintain weather-related insurance for major events. Due to the importance of clear visibility and safe driving conditions to motorsports racing events, outdoor racing events may be significantly affected by weather patterns and seasonal weather changes. Any unanticipated weather changes could impact our ability to stage events. This could have a material adverse effect on our business, financial condition and results of operations.

Postponement And/Or Cancellation Of Major Motorsports Events Could Adversely Affect Us

If one of our events is postponed because of weather or other reasons such as, for example, the general postponement of all major sporting events in this country following the September 11, 2001 terrorism attacks, we could incur increased expenses associated with conducting the rescheduled event, as well as possible decreased revenues from tickets, concessions and merchandise at the rescheduled event. If an event is cancelled, we could incur the expenses associated with preparing to conduct the event as well as lose the revenues, including live broadcast revenues associated with the event.

If a cancelled event is part of a NASCAR series, we could experience a reduction in the amount of money received from television revenues for all of our NASCAR-sanctioned events in the series that experienced the cancellation. This would occur if, as a result of the cancellation, and without regard to whether the cancelled event was scheduled for one of our facilities, NASCAR experienced a reduction in broadcast revenues greater than the amount scheduled to be paid to the promoter of the cancelled event.

Due To Our Concentrated Stock Ownership, Stockholders May Have No Effective Voice In Our Management

We have elected to be treated as a controlled corporation as defined by New York Stock Exchange (NYSE) Rule 303A. We are a controlled corporation because a single person, Henry B. Tippie, the Chairman of our Board of Directors, controls in excess of fifty percent of our voting power. This means that he has the ability to determine the outcome of the election of directors at our annual meetings and to determine the outcome of many significant corporate transactions, many of which only require the approval of a majority of our voting power. Such a concentration of voting power could also have the effect of delaying or preventing a third party from acquiring us at a premium. In addition, as a controlled corporation, we are not required to comply with certain NYSE rules.

We May Not Be Able To Maintain Our Listing With The NYSE

Our Common Stock is traded on the NYSE under the symbol DVD. We are required to maintain market capitalization of more than $50,000,000 (measured over a 30 day trading period) or stockholders equity of more than $50,000,000 in order to remain in compliance with NYSE continued listing standards. On November 4, 2011, we were notified by the NYSE that we are below criteria for these continued listing standards because, as of November 1, 2011, our 30 trading-day average market capitalization was $42.3 million and our stockholders equity as of September 30, 2011 was $40.9 million.

We have 45 days from this notice to submit a plan to the NYSE to demonstrate our ability to regain compliance with continued listing standards within 18 months. However, there is no assurance that we will be able to formulate

a plan that will be accepted by the NYSE. Assuming that the NYSE accepts our plan, our Common Stock would continue to be listed on the NYSE, subject to our compliance with other NYSE continued listing requirements. If we are not able to regain compliance with NYSE listing standards or if our plan is rejected, our stock will be delisted from trading on the NYSE. The delisting of our stock from trading on the NYSE would result in the need to find another market on which our stock can be listed or cause our stock to cease trading on an active market, which could result in a reduction in the liquidity for our stock and a reduction in demand for our stock.

Non-compliance with NYSE continued listing standards or delisting from the NYSE could negatively impact us, including, without limitation, our relationships with stockholders, businesses and lenders, our access to debt and equity financing, and our ability to attract and retain personnel by means of equity compensation. This, in turn, could materially and adversely affect our business, financial condition and results of operations. Securities traded in the over-the-counter market generally have significantly less liquidity than securities traded on a national securities exchange, through factors such as a reduction in the number of investors that will consider investing in the securities, the number of market makers in the securities, reduction in securities analyst and news media coverage and lower market prices than might otherwise be obtained.

Our Success Depends On The Availability And Performance Of Key Personnel

Our continued success depends upon the availability and performance of our senior management team which possesses unique and extensive industry knowledge and experience. Our inability to retain and attract key employees in the future, could have a negative effect on our operations and business plans.

We Are Subject To Changing Governmental Regulations And Legal Standards That Could Increase Our Expenses

Our motorsports facilities are on large expanses of property which we own. Laws and regulations governing the use and development of real estate may delay or complicate any improvements we choose to make and/or increase the costs of any improvements or our costs of operating.

If it is determined that damage to persons or property or contamination of the environment has been caused or exacerbated by the operation or conduct of our business or by pollutants, substances, contaminants or wastes used, generated or disposed of by us, or if pollutants, substances, contaminants or wastes are found on property currently or previously owned or operated by us, we may be held liable for such damage and may be required to pay the cost of investigation and/or remediation of such contamination or any related damage.

State and local laws relating to the protection of the environment also can include noise abatement laws that may be applicable to our racing events. In addition certain laws and regulations, including the Americans with Disabilities Act and the Occupational Safety and Health Act are constantly evolving. Changes in the provisions or application of federal, state or local environmental, land use or other laws, regulations or requirements to our facilities or operations, or the discovery of previously unknown conditions, could require us to make additional material expenditures to remediate or attain compliance.

Regulations governing the use and development of real estate may prevent us from acquiring or developing prime locations for motorsports entertainment facilities, substantially delay or complicate the process of improving existing facilities, and/or increase the costs of any of such activities.

We undertake no obligation to publicly update or revise any forward-looking statements as a result of future developments, events or conditions. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ significantly from those forecast in any forward-looking statements. Given these risks and uncertainties, stockholders should not overly rely or attach undue weight to our forward-looking statements as an indication of our actual future results.

Item 2. **Unregistered Sales of Equity Securities and Use of Proceeds**

On July 28, 2004, our Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding common stock. The purchases may be made in the open market or in privately negotiated transactions as conditions warrant. The repurchase authorization has no expiration date, does not obligate us to acquire any specific number of shares and may be suspended at any time. At present we are not permitted to make such purchases under our credit facility.

Item 3. **Defaults Upon Senior Securities**

None.

Item 4. **Reserved**

Item 5. **Other Information**

None.

Item 6. **Exhibits**

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Sec. 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.1	XBRL Instance Document*
101.2	XBRL Taxonomy Extension Schema Document*
101.3	XBRL Taxonomy Extension Calculation Linkbase Document*
101.4	XBRL Taxonomy Extension Definition Linkbase Document*
101.5	XBRL Taxonomy Extension Label Linkbase Document*
101.6	XBRL Taxonomy Extension Presentation Linkbase Document*

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* The XBRL information is being furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any registration statement under the Securities Act of 1933, as amended.

Signatures

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.

DATED: November 10, 2011

Dover Motorsports, Inc.
Registrant

/s/ Denis McGlynn
Denis McGlynn
President, Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Timothy R. Horne
Timothy R. Horne
Senior Vice President-Finance and Chief Financial Officer
(Principal Financial and Accounting Officer)