

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

CHAMPIONSHIP AUTO RACING TEAMS INC
Form 10-Q
November 14, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- (X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2001.
- () Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period _____ to _____.

Commission File No. 1-13925

CHAMPIONSHIP AUTO RACING TEAMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

38-3389456

(State or other jurisdiction of
Incorporation or organization)

(IRS Employer Identification No.)

755 West Big Beaver Rd., Suite 800, Troy, MI 48084

(Address of principal executive offices)
(Zip Code)

(248) 362-8800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No []

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

COMMON STOCK \$0.01 PAR VALUE

14,718,134 SHARES

CLASS

OUTSTANDING AT NOVEMBER 1, 2001

This report contains 20 pages.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets as of September 30, 2001 and
December 31, 2000

Consolidated Statements of Income (Loss) for the Three and Nine Months
Ended September 30, 2001 and 2000

Consolidated Statement of Stockholders' Equity for the Nine Months
Ended September 30, 2001

Consolidated Statements of Cash Flows for the Nine Months Ended
September 30, 2001 and 2000

Notes to Consolidated Financial Statements

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISKS

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURES

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

(UNAUDITED)

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 40,04
Short-term investments	95,06
Accounts receivable (net of allowance for doubtful accounts of \$7,262 and \$6,539 at September 30, 2001 and December 31, 2000, respectively)	5,32
Current portion of notes receivable	11
Inventory	13
Prepaid expenses	71
Deferred income taxes	6,75

Total current assets 148,15

NOTES RECEIVABLE

PROPERTY AND EQUIPMENT- Net 4,89

GOODWILL (net of accumulated amortization of \$123 and \$493 at September 30, 2001 and December 31, 2000, respectively) 1,48

OTHER ASSETS (net of accumulated amortization of \$109 and \$88 at September 30, 2001 and December 31, 2000, respectively) 33

TOTAL ASSETS \$154,96

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 2,87
Accrued liabilities:	
Race expenses and point awards	2,54
Royalties	18
Payroll	1,57
Taxes	5,22
Litigation	5,00
Other	4,73
Deferred revenue	9,91
Deposits	--

Total current liabilities 32,05

DEFERRED INCOME TAXES 1,35

COMMITMENTS AND CONTINGENCIES (NOTE 7) --

STOCKHOLDERS' EQUITY:

Preferred stock, \$.01 par value; 5,000,000 shares authorized, none issued and outstanding at September 30, 2001 and December 31, 2000	--
Common stock \$.01 par value, 50,000,000 shares authorized, 14,718,134 and 15,765,467 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively	14
Additional paid-in capital	87,76
Retained earnings	32,29

Unrealized gain on investments 1,34

Total stockholders' equity 121,55

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$154,96

See accompanying notes to consolidated financial statements.

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

CHAMPIONSHIP AUTO RACING TEAMS, INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000
(UNAUDITED)
(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	-----	-----
REVENUES:		
Sanction fees	\$ 21,744	\$ 14,611
Sponsorship revenue	3,703	5,754
Television revenue	2,365	2,597
Engine leases, rebuilds and wheel sales	325	622
Other revenue	1,422	4,172
	-----	-----
Total revenues	29,559	27,756
EXPENSES:		
Race distributions	8,399	6,971
Race expenses	3,227	3,453
Cost of engine rebuilds and wheel sales	128	237
Administrative and indirect expenses (includes		
Severance expense of \$257 and \$1,453 for the three and nine		
months ended September 30, 2001, respectively, and \$0 and		
\$2,758 for the three and nine		
months ended September 30, 2000, respectively)	9,803	6,568
Asset impairment and strategic charges (Note 5)	8,548	--
Litigation expenses (Note 7)	3,547	--
Depreciation and amortization	346	316
	-----	-----
Total expenses	33,998	17,545
OPERATING INCOME (LOSS)	(4,439)	10,211
Interest income (net)	1,761	1,988
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(2,678)	12,199
Income tax expense (benefit)	(968)	4,429
	-----	-----
NET INCOME (LOSS)	\$ (1,710)	\$ 7,770
	=====	=====
EARNINGS (LOSS) PER SHARE:		
BASIC	\$ (0.11)	\$ 0.50
	=====	=====
DILUTED	\$ (0.11)	\$ 0.50
	=====	=====
WEIGHTED AVERAGE SHARES OUSTANDING:		
BASIC	15,141	15,589
	=====	=====
DILUTED	15,149	15,622
	=====	=====

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

See accompanying notes to consolidated financial statements.

4

CHAMPIONSHIP AUTO RACING TEAMS, INC. CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 (UNAUDITED) (IN THOUSANDS)

	COMMON STOCK		ADDITIONAL	RETAINED	UNREALIZED
	SHARES	AMOUNT	PAID-IN CAPITAL	EARNINGS	GAIN INVESTMENTS
BALANCES, DECEMBER 31, 2000	15,765	\$ 158	\$ 103,130	\$ 29,978	\$
Net income	--	--	--	2,320	
Unrealized gain on investments	--	--	--	--	
Comprehensive income					
Exercise of options	7	--	109	--	
Acquisition and retirement of common stock	(1,054)	(11)	(15,474)		
BALANCES, SEPTEMBER 30, 2001	14,718	\$ 147	\$ 87,765	\$ 32,298	\$

See accompanying notes to consolidated financial statements.

5

CHAMPIONSHIP AUTO RACING TEAMS, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001 AND 2000 (UNAUDITED) (DOLLARS IN THOUSANDS)

	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

Net income	\$ 2,320	\$ 15
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,151	
Net (gain) loss from sale of property and equipment	1,973	
Impairment of goodwill	5,628	
Deferred income taxes	(4,049)	
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	249	(4)
Inventory	15	
Prepaid expenses	(145)	
Other assets	(2)	
Accounts payable	902	
Accrued liabilities	15,398	6
Deferred revenue	7,464	5
Deposits	(778)	
	-----	-----
Net cash provided by operating activities	30,126	25
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(56,553)	(178)
Proceeds from sale and maturities of investments	60,410	166
Notes receivable	2,463	
Acquisition of property and equipment	(616)	(1)
Proceeds from sale of property and equipment	86	
Acquisition of trademark	(1)	
	-----	-----
Net cash provided by (used in) investing activities	5,789	(12)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	109	
Repurchase of common stock	(15,485)	
	-----	-----
Net cash provided by (used in) financing activities	(15,376)	
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,539	12
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	19,504	7
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 40,043	\$ 20
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION--		
Cash paid during the period for:		
Income taxes	\$ 287	\$ 5
	=====	=====
Interest	\$ 6	\$
	=====	=====

See accompanying notes to consolidated financial statements.

CHAMPIONSHIP AUTO RACING TEAMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

BASIS OF PRESENTATION. The accompanying unaudited consolidated financial statements have been prepared by management and, in the opinion of management, contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of Championship Auto Racing Teams, Inc. and subsidiaries (the "Company") as of September 30, 2001 and the results of its operations and its cash flows for the three months and nine months ended September 30, 2001 and 2000.

The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Form 10-K filed with the Securities and Exchange Commission.

Because of the seasonal concentration of racing events, the results of operations for the three months and nine months ended September 30, 2001 and 2000 are not indicative of the results to be expected for the year.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements of the Company include the financial statements of Championship Auto Racing Teams and its wholly-owned subsidiaries - CART, Inc., American Racing Series, Inc., Pro-Motion Agency, Ltd. and CART Licensed Products, Inc. All significant intercompany balances have been eliminated in consolidation.

ACCOUNTING PRONOUNCEMENTS. The Company has adopted Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting For Derivative Instruments and Hedging Activities," effective January 1, 2001. Management has determined that the impact of adoption of SFAS No. 133 on the Company's financial position, results of operations and cash flows is insignificant.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires the use of the purchase method of accounting for business combinations initiated after September 30, 2001 and eliminates the pooling-of-interests accounting method. The Company does not believe that the adoption of SFAS No. 141 will have a significant impact on its financial statements.

In July 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets," which is effective January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles such as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is currently assessing, but has not yet determined, the impact of SFAS no. 142 on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived

Assets to be Disposed Of." This statement retains the impairment loss recognition and measurement requirements of SFAS No. 121. In addition, it

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

requires that one accounting model be used for long-lived assets to be disposed of by sale, and broadens the presentation of discontinued operations to include more disposal transactions. The Company is required to adopt this statement for the year ending December 31, 2002, and has not determined the impact, if any, that this statement will have on its financial position or results of operations.

RECLASSIFICATIONS. Certain reclassifications have been made to the 2000 unaudited consolidated financial statements in order for them to conform to the 2001 presentation.

2. SHORT-TERM INVESTMENTS

The following is a summary of the estimated fair value of available-for-sale short-term investments by balance sheet classification:

GROSS UNREALIZED (IN THOUSANDS)	COST	FAIR VALUE	GAIN	LOSS
	-----	-----	-----	-----
SEPTEMBER 30, 2001				
Corporate bonds	\$ 7,824	\$ 7,828	\$ 4	\$ --
U.S. agencies securities	85,897	87,234	1,337	--
	-----	-----	-----	-----
Total short-term investments	\$93,721	\$95,062	\$ 1,341	\$ --
	=====	=====	=====	=====
DECEMBER 31, 2000				
Corporate bonds	\$ 1,502	\$ 1,507	\$ 5	\$ --
U.S. agencies securities	96,076	96,699	623	--
	-----	-----	-----	-----
Total short-term investments	\$97,578	\$98,206	\$ 628	\$ --
	=====	=====	=====	=====

Proceeds from sales of investments were approximately \$60.4 million and \$166.7 million for the nine months ended September 30, 2001 and 2000, respectively.

Contractual maturities range from less than one year to two years. The weighted average maturity of the portfolio does not exceed one year.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2001 and December 31, 2000:

	(IN THOUSANDS)	
	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	-----	-----
Engines	\$ 2,456	\$ 2,397
Equipment	4,685	4,448
Furniture and fixtures	413	405
Vehicles	3,505	3,562
Other	208	230
	-----	-----
Total	11,267	11,042
Less accumulated depreciation	(6,373)	(3,715)
	-----	-----

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

Property and equipment (net)	\$ 4,894	\$ 7,327
	=====	=====

8

4. CAPITAL STOCK

During the nine months ended September 30, 2001, the Company repurchased and retired 1,054,000 shares of its common stock for an aggregate cost of \$15.5 million, pursuant to its stock repurchase program authorized by the Board of Directors in April 2001. The program allows the Company to repurchase up to 2.5 million shares of its outstanding common stock from time to time in open market or privately negotiated transactions. Repurchases under the program will be made at the discretion of management based upon market, business, legal, accounting and other factors, and accordingly, there is not a guarantee as to the timing or number of shares to be repurchased.

5. ASSET IMPAIRMENT AND STRATEGIC CHARGES

During the third quarter, the Board of Directors of the Company adopted a formal exit plan with respect to the discontinuance of the Dayton Indy Lights Championship (the "DILC") effective at the conclusion of the 2001 race season. This decision resulted from an in-depth analysis of the Company's development series conducted by management of the Company and Bain & Company, an independent consulting company. The analysis was initiated to determine the future viability of the DILC, operated by American Racing Series, Inc. ("ARS"), a subsidiary of the Company. This analysis included discussions with DILC team owners and employees and discussions with Toyota Atlantics Championship ("TAC") team owners and employees. The TAC is operated by Pro-Motion, Ltd., a subsidiary of the Company. The analysis was completed in July, 2001.

The Company reviewed the financial and operational performance of the DILC and the TAC. Based upon such analysis, and based upon the information gathered in discussions with team owners and employees, management of the Company concluded that due to the current environment for open-wheel racing in the United States, CART can only support one development series at this level. CART had many discussions with sponsors of the DILC and the TAC and concluded that the support of Toyota with the TAC and the equipment contracts in place for TAC supported the decision to discontinue the DILC at the conclusion of the 2001 race season to focus its support and efforts on one development series.

During the third quarter of 2001, the Company recorded non-recurring, restructuring charges of \$8.5 million related to the formal exit plan for the discontinuance of operations of the DILC. The Company recorded non-recurring charges of \$7.6 million related to the impairment of goodwill (\$5.6 million) and property and equipment (\$2.0 million). The carrying value of the property and equipment that has been impaired primarily relates to engines owned by ARS and used in the DILC. The Company has not identified any potential purchaser of the engines, and does not believe that there is a ready market for such engines.

The Company also recorded charges of \$885,000 resulting from management's expectation of certain expenses following the decision by the Company to discontinue the DILC operations. These charges included provisions for doubtful accounts, severance payments and other settlement charges.

6. SEGMENT REPORTING

The Company has one reportable segment, racing operations.

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

This reportable segment encompasses all the business operations of organizing, marketing and staging all of our open-wheel racing events.

9

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company's long-lived assets are substantially used in the racing operations segment in the United States. The Company evaluates performance based on income before income taxes.

	THREE MONTHS ENDED SEPTEMBER 30,		

(Dollars in Thousands)	RACING OPERATIONS	OTHER*	TOTAL
-----	-----	-----	-----
2001			
Revenues	\$ 29,468	\$ 91	\$ 29,559
Interest income (net)	1,756	5	1,761
Depreciation and amortization	322	24	346
Segment loss before income taxes	(2,616)	(62)	(2,678)
2000			
Revenues	\$ 27,484	\$ 272	\$ 27,756
Interest income (net)	1,983	5	1,988
Depreciation and amortization	289	27	316
Segment income before income taxes	12,199	--	12,199

	NINE MONTHS ENDED SEPTEMBER 30,		

(Dollars in Thousands)	RACING OPERATIONS	OTHER*	TOTAL
-----	-----	-----	-----
2001			
Revenues	\$ 55,511	\$ 272	\$ 55,783
Interest income (net)	5,685	15	5,700
Depreciation and amortization	1,078	73	1,151
Segment income (loss) before income taxes	3,587	(18)	3,569
2000			
Revenues	\$ 59,796	\$ 710	\$ 60,506
Interest income (net)	5,269	12	5,281
Depreciation and amortization	826	81	907
Segment income (loss) before income taxes	25,047	(191)	24,856

*Segment is below the quantitative thresholds for determining reportable segments and commenced operations on January 1, 1997. This segment is related to the Company's licensing royalties.

Reconciliations to consolidated financial statement totals are as follows:

(Dollars in Thousands)	SEPTEMBER 30,	DECEMBER 31,
-----	2001	2000
	-----	-----

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

Total assets for reportable segment	\$153,929	\$143,095
Other assets	1,033	1,006
	-----	-----
Total consolidated assets	\$154,962	\$144,101
	=====	=====

7. COMMITMENTS AND CONTINGENCIES

LITIGATION. On September 8, 2000, a complaint for damages was filed against the Company by the heirs of Gonzolo Rodriguez, a race car driver who died on September 11, 1999 while driving his race car

10

at the Laguna Seca Raceway in a practice session for the CART race event. The suit sought damages in an unspecified amount for negligence, wrongful death and willful and/or reckless conduct. On November 5, 2001, a release signed by Mr. Rodriguez was upheld by the Court and the causes of action for negligence dismissed based on defendants' motion for summary judgment.

On October 30, 2000, a complaint for damages was filed against the Company by the estate of Greg Moore, a race car driver who died on October 31, 1999 while driving his race car at the California Speedway during the CART race event. The suit seeks actual and punitive damages from the Company in an unspecified amount for breach of duty, wanton and reckless misconduct, breach of implied contract, battery, wrongful death and negligent infliction of emotional distress.

The Company intends to continue to vigorously defend itself in each of these lawsuits and does not believe that it is liable for either of these incidents. The Company requires each promoter to indemnify the Company against any liability for personal injuries sustained at such promoter's racing event. In addition, the Company requires each promoter to carry liability insurance, naming the Company as a named insured. The Company also maintains liability insurance to cover racing incidents. Management does not believe that the outcome of these lawsuits will have a material adverse affect on the Company's financial position or future results of operations.

On February 28, 2001, the Company filed a lawsuit against ISL Marketing AG ("ISL") in the Circuit Court for the County of Oakland, State of Michigan. The lawsuit alleges fraudulent inducement, breach of agreement and failure to pay more than \$6 million due the Company in 2000. In April 2001, ISL filed a counterclaim seeking damages in excess of \$150 million, plus punitive damages in an unspecified amount, interest and attorney fees. Management does not believe that the counterclaim filed by ISL has merit. In June 2001, ISL was declared bankrupt by the Swiss courts. The Company will continue to pursue a judgment in the Michigan case and pursue its claim under Swiss bankruptcy laws.

On April 29, 2001, the Company announced the postponement of the race at Texas Motor Speedway ("TMS"). On May 8, 2001, a complaint for unspecified damages was filed by TMS against the Company and certain Company employees. The suit alleged breach of contract, negligence, fraud and negligent misrepresentation claims. On October 16, 2001 the Company reached a settlement with TMS, including the cancellation of the agreement between the parties and the races in 2001 through 2003. The Company recorded litigation expenses of \$3.5 million, including legal and consulting fees. The settlement also included return of the sanction fee relating to the canceled race.

On November 8, 2001, two former team owners, DellaPenna Motorsports and

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

Precision Preparation, Inc., filed suit against the Company in the Circuit Court for the County of Wayne, State of Michigan, each alleging damages in excess of \$1.0 million for breach of contract, promissory estoppel, misrepresentation, and tortious interference with contract and business expectancy. The Company intends to vigorously defend itself in this lawsuit. Management does not believe that the outcome of this lawsuit will have a material adverse affect on the Company's financial position or future results of operations.

8. SUBSEQUENT EVENTS

In November 2001, the Company renewed their title sponsorship agreement with FedEx Corp. ("FedEx") The sponsorship agreement extends FedEx sponsorship of the "FedEx Championship Series" for three years, with an option for a fourth year. The agreement also includes an option for FedEx to terminate the agreement after one year.

11

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements of the Company, including the respective notes thereto which are included in this Form 10-Q.

SEASONALITY AND QUARTERLY RESULTS

A substantial portion of our total revenues during the race season is expected to remain seasonal, based on our race schedule. Our quarterly results vary based on the number of races held during the quarter. During the third quarter ended September 30, 2001, we held nine races: Cleveland, Ohio; Toronto, Ontario; Brooklyn, Michigan; Cicero, Illinois; Lexington, Ohio; Elkhart Lake, Wisconsin; Vancouver, British Columbia; Lausitz, Germany; Colby, England. During the third quarter ended September 30, 2000, we held nine races: Cleveland, Ohio; Toronto, Ontario; Brooklyn, Michigan; Cicero, Illinois; Lexington, Ohio; Elkhart Lake, Wisconsin; Vancouver, British Columbia; Monterey, California; Madison, Illinois. In addition, the mix between the type of race (street course, superspeedway, etc.) and the sanction fees attributed to those races affect quarterly results.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2001 Compared to Three Months Ended September 30, 2000

REVENUES. Total revenues for the quarter ended September 30, 2001 were \$29.6 million, an increase of \$1.8 million, or 7%, from the same period in the prior year. This increase was due to higher sanction fees, partially offset by a decrease in sponsorship revenue, TV revenue, engine leases, rebuilds and wheel sales and other revenue as described below.

Sanction fees for the quarter ended September 30, 2001 were \$21.7 million, an increase of \$7.1 million, or 49%, from the same period in the prior year. This was primarily attributable to an annual escalation of sanction fees

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

and a different mix of race venues, with higher paying races exchanged for lower paying races in the third quarter of 2001 when compared to the same period in the prior year.

Sponsorship revenue for the quarter ended September 30, 2001 was \$3.7 million, a decrease of \$2.1 million, or 36%, from the same period in the prior year. This decrease was primarily attributable to the loss of guaranteed sponsorship income from our former sponsorship partner.

Television revenue for the quarter ended September 30, 2001 was \$2.4 million, a decrease of \$232,000 or 9%, from the same period in the prior year. This decrease was primarily due to advertising revenue received from our TV magazine show "Inside CART" in the third quarter of 2000. The show did not air during the same period in 2001.

Engine leases, rebuilds and wheel sales revenue for the quarter ended September 30, 2001 was \$325,000, a decrease of \$297,000, or 48%, from the same period in the prior year. This decrease was primarily the result of conducting four races in the third quarter of 2001 compared to six races in the same period in the prior year and fewer Indy Lights entries in the third quarter of 2001 compared to the same period in the prior year.

Other revenue for the quarter ended September 30, 2001 was \$1.4 million, a decrease of \$2.8 million, or 66%, from the same period in the prior year. The decrease was partially attributable to a decrease in royalty revenues and sales from licensed merchandise of \$259,000 and a decrease in entry fees and related income from our two support series of \$316,000 due to fewer entries and to conducting two

12

fewer Dayton Indy Lights races. In addition, the decrease was partially attributable to certain non-recurring revenue received in the three months ended September 30, 2000 that was not received in the corresponding period in 2001. The non-recurring revenue was from an insurance settlement of \$1.4 million (net of expenses) received from Frontier Insurance Company related to settlement of litigation concerning a performance bond that was provided with respect to the Hawaiian Grand Prix, pace car revenues of \$382,000, movie rights fees of \$200,000, team testing revenue of \$143,000, and other miscellaneous income.

EXPENSES. Total expenses for the quarter ended September 30, 2001 were \$34.0 million, an increase of \$16.5 million, or 94%, from the same period in the prior year. This increase was attributable to an increase in race distributions, administrative and indirect expenses, litigation expense, and asset impairment and charges, partially offset by a decrease in race expenses and cost of engine rebuilds and wheel sales.

Race distributions for the quarter ended September 30, 2001 were \$8.4 million, an increase of \$1.4 million, or 21%, from the same period in the prior year. This increase is primarily due to distributions related to travel reimbursement to teams for our two new European races held in the third quarter 2001 that were not held in the third quarter 2000. This increase was partially offset by having two less Indy Lights races in the third quarter of 2001 compared to the same period in the prior year.

Race expenses for the quarter ended September 30, 2001 were \$3.2 million, a decrease of \$226,000, or 7%. The decrease was primarily attributed to a reduction in travel expenses related to certain races held in the third quarter of 2001 when compared to 2000.

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

Cost of engine rebuilds and wheel sales for the quarter ended September 30, 2001 was \$128,000, a decrease of \$109,000 or 46%, from the same period in the prior year. This decrease is due to decreased engine rebuild revenue as noted above.

Administrative and indirect expenses for the quarter ended September 30, 2001 were \$9.8 million, an increase of \$3.2 million or 49%, from the same period in the prior year. This increase was partially attributable to European television expense of \$1.3 million, \$257,000 in severance payments made under severance agreements with former employees, a \$500,000 charitable contribution to the September 11th relief funds and an increased investment in strategic planning, personnel and marketing and advertising that are focused on building our strategic plan and branding awareness.

Asset impairment charges for the quarter ended September 30, 2001 were \$8.5 million. There was no corresponding expense from the same period in the prior year. The increase was a result of non-recurring, restructuring charges related to the formal plan for the discontinuance of the Dayton Indy Lights Championship Series.

Litigation expense for the quarter ended September 30, 2001 was \$3.5 million. There was no corresponding expense from the same period in the prior year. The charge was the result of a settlement with the Texas Motor Speedway for the cancellation of a race that was to be held in April 2001.

Depreciation and amortization for the quarter ended September 30, 2001 was \$346,000 compared to depreciation and amortization of \$316,000 for the same period in the prior year.

OPERATING INCOME (LOSS). Operating loss for the quarter ended September 30, 2001 was \$4.4 million, a decrease in income of \$14.7 million from the corresponding period in the prior year due to the factors described above.

INTEREST INCOME (NET). Interest income (net) for the quarter ended September 30, 2001 was \$1.8 million, a decrease of \$227,000 or 11%, from the same period in the prior year. This is primarily due to a decline in market rates.

13

INCOME (LOSS) BEFORE INCOME TAXES. Loss before income taxes for the quarter ended September 30, 2001 was \$2.7 million, compared to income before income taxes of \$12.2 million from the same period in the prior year.

INCOME TAX EXPENSE (BENEFIT). Income tax benefit for the quarter ended September 30, 2001 was \$968,000, compared to an income tax expense of \$4.4 million for the corresponding period in the prior year.

NET INCOME (LOSS). Net loss for the quarter ended September 30, 2001 was \$1.7 million, compared to net income of \$7.8 million for the corresponding period in the prior year as a result of the factors described above.

Nine Months Ended September 30, 2001 Compared to Nine Months Ended September 30, 2000

REVENUES. Total revenues for the nine months ended September 30, 2001 were \$55.8 million, a decrease of \$4.7 million, or 8%, from the same period in the prior year. This decrease was due to lower sponsorship revenue, TV revenue,

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

engine leases, rebuilds and wheel sales and other revenue, partially offset by an increase in sanction fees, as described below.

Sanction fees for the nine months ended September 30, 2001 were \$37.6 million, an increase of \$5.8 million, or 18%, from the same period in the prior year. This increase was primarily attributed to an annual escalation of sanction fees and a different mix of race venues, with higher paying races exchanged for lower paying races in the nine months of 2001 when compared to the same period in the prior year, partially offset by conducting sixteen races in the nine months ended September 30, 2001 compared to seventeen races in the comparable period in the prior year.

Sponsorship revenue for the nine months ended September 30, 2001 was \$10.1 million, a decrease of \$5.7 million, or 36%, from the same period in the prior year. This decrease was primarily attributable to the loss of guaranteed income from our former sponsor partner.

Television revenue for the nine months ended September 30, 2001 was \$4.2 million, a decrease of \$422,000 or 9%, from the same period in the prior year. This decrease was primarily due to sixteen events taking place in the nine months ended September 30, 2001 compared to seventeen events in the same period in the prior year and a decrease in advertising revenue received from our TV magazine show "Inside CART". The show did not air in 2001.

Engine leases, rebuilds and wheel sales for the nine months ended September 30, 2001 was \$908,000, a decrease of \$801,000, or 47%, from the same period in the prior year. This decrease was primarily the result of having fewer Indy Lights entries in the nine months ended September 30, 2001 compared to the same period in the prior year.

Other revenue for the nine months ended September 30, 2001 was \$2.9 million, a decrease of \$3.7 million, or 56%, from the same period in the prior year. The decrease was partially attributable to a decrease in royalty revenues and sales from licensed merchandise of \$694,000 and a decrease in entry fees and related income from our two support series of \$452,000, due to fewer entries and to conducting one less race for each of our support series in the nine months ended September 30, 2001 when compared to the same period in the prior year. In addition, the decrease was partially attributable to certain non-recurring revenue received in the nine months ended September 30, 2000 that was not received in the corresponding period in 2001. The non-recurring revenue was from an insurance settlement of \$1.4 million (net of expenses) received from Frontier Insurance Company related to settlement of litigation concerning a performance bond that was provided with respect to the Hawaiian Grand Prix, pace car revenues of \$382,000, movie rights fees of \$200,000, team testing revenue of \$212,000, donation of equipment of \$209,000 and other miscellaneous income.

EXPENSES. Total expenses for the nine months ended September 30, 2001 were \$57.9 million, an increase of \$17.0 million, or 42%, from the same period in the prior year. This increase was due to an

increase in administrative and indirect expenses, asset impairment charges, litigation expense, and race distributions and expenses, partially offset by a decrease in cost of engine rebuilds and wheel sales.

Race distributions for the nine months ended September 30, 2001 were \$13.8 million, an increase of \$777,000 or 6%, from the same period in the prior year. This increase was primarily due to distributions related to travel reimbursements to teams for our two new European races held in the nine months

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

ended September 30, 2001, that were not held in the same period in the prior year, partially offset by holding sixteen races in the nine months ended September 30, 2001 compared to seventeen races in the same period in the prior year.

Race expenses for the nine months ended September 30, 2001 were \$7.8 million, an increase of \$125,000, or 2%, from the same period in the prior year. This increase is primarily due to added personnel, travel and operating expenses in our race departments, partially offset by holding sixteen races in the nine months ended September 30, 2001 compared to seventeen races in the same period in the prior year.

Cost of engine rebuilds and wheel sales for the nine months ended September 30, 2001 was \$343,000, a decrease of \$275,000, or 45%, from the same period in the prior year. This decrease is due to the factors noted above with respect to decreased engine rebuild revenue.

Administrative and indirect expenses for the nine months ended September 30, 2001 were \$22.8 million, an increase of \$4.0 million, or 21%, from the same period in the prior year. This increase was primarily attributable to European television expense of \$1.3 million, a \$500,000 charitable contribution to the September 11th relief funds and an increased investment in strategic planning, personnel and marketing and advertising expenditures that are focused on building our strategic plan and branding awareness. This increase was partially offset by a decrease in severance payments made under severance agreements with former employees. The increase was also partially offset by a decrease in operating expenses and personnel due to the consolidation of our Atlanta licensed product office into our headquarters in Troy, Michigan at the end of 2000.

Asset impairment charges for the nine months ended September 30, 2001 were \$8.5 million. There was no corresponding expense from the same period in the prior year. The increase was a result of non-recurring, restructuring charges related to the formal exit plan for the discontinuance of the Dayton Indy Lights Championship Series as discussed above.

Litigation expense for the nine months ended September 30, 2001 was \$3.5 million. There was no corresponding expense from the same period in the prior year. The charge was the result of a settlement with the Texas Motor Speedway for the cancellation of a race that was to be held in April 2001.

Depreciation and amortization for the nine months ended September 30, 2001 was \$1.2 million, compared to depreciation and amortization of \$907,000 for the same period in the prior year.

OPERATING INCOME (LOSS). Operating loss for the nine months ended September 30, 2001 was \$2.1 million, a decrease in income of \$21.7 million from the same period in the prior year.

INTEREST INCOME (NET). Interest income (net) for the nine months ended September 30, 2001 was \$5.7 million, an increase of \$419,000, or 8%, from the same period in the prior year. This is primarily due to reinvestment of cash flows from operations.

INCOME BEFORE INCOME TAXES. Income before income taxes for the nine months ended September 30, 2001 was \$3.6 million, compared to income before income taxes of \$24.9 million for the same period in the prior year.

INCOME TAX EXPENSE. Income tax expense for the nine months ended September 30, 2001 was \$1.2 million, compared to an income tax expense of \$8.9 million for the same period in the prior year.

NET INCOME. Net income for the nine months ended September 30, 2001 was \$2.3 million compared to net income of \$15.9 million for the same period in the prior year.

LIQUIDITY AND CAPITAL RESOURCES

We have relied on the proceeds from available cash and short-term investments and cash flow from operations to finance working capital, investments and capital expenditures during the past year.

We have a \$1.5 million revolving line of credit with a commercial bank. As of September 30, 2001, there was no outstanding balance under the line of credit. The line of credit contains no significant covenants or restrictions. Advances on the line of credit are payable on demand and bear interest at the bank's prime rate. The line is secured by our deposits with the bank.

Our cash balance on September 30, 2001 was \$40.0 million, a net increase of \$20.5 million from December 31, 2000. This increase was primarily the result of net cash provided by operations of \$30.1 million and net cash provided by investing activities of \$5.8 million, which was offset by net cash used in financing activities of \$15.4 million.

We anticipate capital expenditures of approximately \$1.5 million during the next twelve months. We believe that existing cash, cash flow from operations and available bank borrowings will be sufficient for capital expenditures and other cash needs. In addition, we may incur additional expenditures to increase our marketing budget, build our strategic plan and infrastructure and expand our TV relationships or otherwise to increase the visibility and appeal of our products.

We have also implemented a stock repurchase program that was authorized by our Board of Directors in April 2001. The program allows us to repurchase up to 2.5 million shares of our outstanding stock, of which 1,054,000 shares have been repurchased for an aggregate of \$15.5 million through September 30, 2001. Repurchases under the program will be made at the discretion of management based upon market, business, legal, accounting and other factors. Accordingly, there is not a guarantee as to the timing or number of shares to be repurchased.

In August 2001, we announced our long-term strategic plan. We identified six imperatives that will serve as guidelines to grow our business. The six key elements of the strategic initiative focus on:

- CART's core racing product -"The Most Advanced Form of American Auto Racing"
- The highly technical aspects of CART racing
- Venues which provide CART and its partners with the best opportunity for success
- Investing in the awareness and entertainment value of events
- Creating and promoting stars
- Better serving the sponsor community

We are currently formulating our tactical plans and approaches so we can begin preparations to execute programs to grow our business. In furtherance

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

of this strategic plan, we have concluded that we need to focus our efforts on building a single top-level development series and that all of our support will be behind the Toyota Atlantic Championship. As a part of our strategic plan, we may increase our expenditures for marketing and infrastructure, and may make other expenditures in furtherance of our objectives under the plan.

In light of current events and the overall state of the economy, we are uncertain on whether we or our teams will be able to maintain the same levels of sponsorship income that we've reported in the past or secure additional sponsorship. In addition, we are unable to determine what effect these factors will have

16

on our new television package and our ability to sell television advertising for our races. We are also unable to assess what impact a decrease in disposable income will have on our promoters and ultimately, our races.

As we have previously reported, we are parties to several lawsuits. We cannot predict the outcome of the litigation, and at this time, management is unable to estimate the impact that ultimate resolution of these matters may have on the Company's financial position or future results of operations.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

With the exception of historical information contained in this Form 10-Q, certain matters discussed are forward-looking statements. These forward-looking statements involve risks that could cause the actual results and plans for the future to differ from these forward-looking statements. The following factors, and other factors not mentioned, could cause the forward-looking statements to differ from actual results and plans:

- competition in the sports and entertainment industry
- participation by race teams
- continued industry sponsorship
- regulation of tobacco and alcohol advertising and sponsorship
- competition by the Indy Racing League
- liability for personal injuries
- negotiation of television contract
- renewal of sanction agreements
- participation of suppliers of engines, tires and chassis

17

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

INTEREST RATE RISK. Our investment policy was designed to maximize safety and liquidity while maximizing yield within those constraints. At

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

September 30, 2001, our investments consisted of corporate bonds, U.S. Agency issues, and repurchase agreements. The weighted average maturity of our portfolio is 171 days. Because of the relatively short-term nature of our investments, our interest rate risk is immaterial.

18

CHAMPIONSHIP AUTO RACING TEAMS, INC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On February 28, 2001, the Company filed a lawsuit against ISL Marketing AG ("ISL") in the Circuit Court for the County of Oakland, State of Michigan. The lawsuit alleges fraudulent inducement, breach of agreement and failure to pay more than \$6 million due the Company. In April 2001, ISL filed a counterclaim seeking damages in excess of \$150 million, plus punitive damages in unspecified amount, interest and attorney fees. The Company believes the allegations are without merit and intends to vigorously pursue its case against, and defend itself against the claims made by ISL. In June 2001, ISL was declared bankrupt by the Swiss courts. The Company will continue to pursue a judgment in the Michigan case and pursue its claim under Swiss bankruptcy laws.

On April 29, 2001, the Company announced the postponement of the race at Texas Motor Speedway ("TMS"). On May 8, 2001, a complaint for unspecified damages was filed by TMS against the Company and certain Company employees in the District Court for the County of Denton, State of Texas. The suit alleged breach of contract, negligence, fraud and negligent misrepresentation claims. On October 16, 2001 the Company reached a settlement with TMS, including the cancellation of the agreement between the parties and the races in 2001 through 2003. The Company recorded litigation expenses of \$3.5 million, including legal and consulting fees. The settlement also included return of the sanction fee relating to the canceled race.

On September 8, 2000, a complaint for damages was filed against the Company by the heirs of Gonzolo Rodriguez, a race car driver who died on September 11, 1999 while driving his race car at the Laguna Seca Raceway in a practice session for the CART race event. The suit sought damages in an unspecified amount for negligence, wrongful death and willful and/or reckless conduct. On November 5, 2001, a release signed by Mr. Rodriguez was upheld by the Court and the causes of action for negligence dismissed based on defendants' motion for summary judgment.

Item 6. Exhibits and Reports on Form 8-K.

Edgar Filing: CHAMPIONSHIP AUTO RACING TEAMS INC - Form 10-Q

(a) Exhibits

10.1 Employment Agreement by and between the Company and Joseph F. Heitzler dated as of December 4, 2000, executed August 8, 2001.

(b) Reports on Form 8-K.

We were not required to file a Form 8-K during the three months ended September 30, 2001.

19

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.

CHAMPIONSHIP AUTO RACING TEAMS, INC.

Date: November 13, 2001

By: /s/ Thomas L. Carter

Thomas L. Carter
Chief Financial Officer

20