

CHAMPIONSHIP AUTO RACING TEAMS INC  
Form 10-Q  
September 29, 2004

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 June 30, 2004.
- ( ) 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.)

5350 Lakeview Parkway Drive South, Indianapolis, IN 46268  
-----

(Address of principal executive offices)  
(Zip Code)

(317) 715-4196  
-----

(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 [ ] No [ X ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 126-2 of the Securities Exchange Act). Yes [ ] No [X]

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 of common stock)

(outstanding at August 31, 2004)

This report contains 35 pages.

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

PAGE

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Consolidated Balance Sheets as of June 30, 2004 and December 31, 2003 3

Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2004 and 2003 4

Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2004 5

Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2004 and 2003 6

Notes to Consolidated Financial Statements 7

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS 19

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS 27

ITEM 4. CONTROLS AND PROCEDURES 27

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS 28

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K 28

SIGNATURES

CERTIFICATIONS

EXHIBITS

CHAMPIONSHIP AUTO RACING TEAMS, INC.  
 CONSOLIDATED BALANCE SHEETS  
 AS OF JUNE 30, 2004 AND DECEMBER 31, 2003  
 (UNAUDITED)  
 (DOLLARS IN THOUSANDS)

	June 30, 2004	Dec
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,217	\$
Short-term investments	3,291	
Accounts receivable (net of allowance for doubtful accounts of \$1,732 and \$2,154 at June 30, 2004 and December 31, 2003 respectively)	710	
Current portion of notes receivable	150	

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

Prepaid expenses and other current assets		395	
Income tax refundable		1,571	
		-----	----
Total current assets		11,334	
PROPERTY AND EQUIPMENT-Net		70	
OTHER ASSETS		--	
		-----	----
TOTAL ASSETS		\$ 11,404	\$
		=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Notes payable	\$	--	\$
Accounts payable		504	
Accrued liabilities:			
Royalties		--	
Payroll		3	
Other		393	
Liabilities of CART, Inc. subject to compromise (Note 12)		2,142	
		-----	----
Total current liabilities		3,042	
COMMITMENTS AND CONTINGENCIES (NOTE 7)		--	
STOCKHOLDERS' EQUITY:			
Preferred stock, \$.01 par value, 5,000,000 shares authorized, none issued and outstanding at June 30, 2004 and December 31, 2003			
Common stock \$.01 par value, 50,000,000 shares authorized, 14,718,134 shares issued and outstanding at June 30, 2004 and December 31, 2003		147	
Additional paid-in capital		87,765	
Accumulated deficit		(79,555)	
Accumulated other comprehensive income		5	
		-----	----
Total stockholders' equity		8,362	
		-----	----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 11,404	\$
		=====	=====

See accompanying notes to consolidated financial statements

3

CHAMPIONSHIP AUTO RACING TEAMS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT LOSS PER SHARE)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
REVENUES:				
Sanction fees	\$ --	\$ 5,300	\$ --	\$ 8,300
Sponsorship revenue	--	2,370	--	3,968
Television revenue	--	713	--	903
Race promotion revenue	--	5,016	--	5,020

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

Engine lease revenue	--	475	--	950
Other revenue	47	534	104	1,431
	-----	-----	-----	-----
Total revenues	47	14,408	104	20,572
EXPENSES:				
Race distributions	--	17,668	--	28,662
Race expenses	--	2,374	--	3,941
Race promotion expense	--	10,577	--	10,910
Television expense	--	5,910	--	7,417
Administrative and indirect expenses	596	4,871	2,767	10,219
Litigation expense	--	1,378	--	1,378
Relocation expense	--	--	--	--
Depreciation and amortization	--	1,024	--	1,844
	-----	-----	-----	-----
Total expenses	596	43,802	2,767	64,371
OPERATING LOSS	(549)	(29,394)	(2,663)	(43,799)
Realized gain on sale of investments	5	--	13	85
Interest income	28	383	59	872
	-----	-----	-----	-----
LOSS BEFORE INCOME TAXES	(516)	(29,011)	(2,591)	(42,842)
Income tax expense (benefit)	(877)	5,502	(877)	660
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 361	\$ (34,513)	\$ (1,714)	\$ (43,502)
	=====	=====	=====	=====
NET INCOME (LOSS) PER SHARE:				
BASIC	\$ 0.02	\$ (2.34)	\$ (0.12)	\$ (2.96)
	=====	=====	=====	=====
DILUTED	\$ 0.02	\$ (2.34)	\$ (0.12)	\$ (2.96)
	=====	=====	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING:				
BASIC	14,718	14,718	14,718	14,718
	=====	=====	=====	=====
DILUTED	14,718	14,718	14,718	14,718
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

4

CHAMPIONSHIP AUTO RACING TEAMS, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 2004  
(UNAUDITED)  
(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL	ACCUMULATED	ACCUMULATED OTHER
COMPREHENSIVE	SHARES	AMOUNT	PAID-IN	DEFICIT	COMPREHENSIVE
	-----	-----	-----	-----	-----
	SHARES	AMOUNT	CAPITAL	DEFICIT	INCOME (LOSS)
	-----	-----	-----	-----	-----
BALANCES, JANUARY 1, 2004	14,718	\$ 147	\$ 87,765	\$ (77,841)	\$ 50
Net loss	--	--	--	(1,714)	--
Unrealized loss on investments	--	--	--	--	(45)

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

Comprehensive loss	--	--	--	--	--
BALANCES, JUNE 30, 2004	14,718	\$ 147	\$ 87,765	\$ (79,555)	\$ 5

See accompanying notes to consolidated financial statements.

5

CHAMPIONSHIP AUTO RACING TEAMS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
(UNAUDITED)  
(DOLLARS IN THOUSANDS)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,714)	\$ (43,
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	--	1,
Bad debt	(422)	
Net loss from sale of property and equipment	--	
Deferred income taxes	--	1,
Changes in assets and liabilities that provided (used) cash (net of effects of purchase of Raceworks, LLC) :		
Accounts receivable	1,500	(5,
Prepaid expenses and other assets	417	(6,
Income tax refundable	(882)	9,
Other assets	(13)	
Accounts payable	(2,734)	(
Accrued liabilities	546	4,
Deferred revenue	--	9,
Net cash used in operating activities	(3,302)	(29,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchase of Raceworks, LLC (net of cash acquired)	--	(
Purchase of investments	--	(6,
Proceeds from sale of investments	4,019	41,
Notes receivable	--	(1,
Acquisition of property and equipment	--	(2,
Proceeds from sale of property and equipment (net of cash sold)	3,039	
Net cash provided by investing activities	7,058	31,
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(1,750)	(
Net cash used in financing activities	(1,750)	(
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,006	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,211	6,
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 5,217	\$ 7,

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

### SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Income taxes

\$ -- \$

Interest

\$ -- \$

Cash received during period from income tax refund

\$ -- \$ 10,

### SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITY-

During 2004, the Company has negotiated settlements with certain Raceworks, LLC creditors which resulted in reductions to trade account payables of approximately \$634,000. During 2003, the Company received property, equipment, and/or services of approximately \$500 in exchange for sponsorship privileges to the providers

See accompanying notes to consolidated financial statements.

6

### CHAMPIONSHIP AUTO RACING TEAMS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**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 June 30, 2004, the results of its operations for the three and six months ended June 30, 2004 and 2003, and its cash flows for the six months ended June 30, 2004 and 2003.

The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2003, filed with the Securities and Exchange Commission.

**ORGANIZATION.** CART, Inc., ("CART") (a Michigan corporation) was organized as a not-for-profit corporation in 1978, with its main purpose being to promote the sport of automobile racing, primarily open-wheel type racing cars. As of January 1, 1992, the entity became a for-profit corporation and continued to use the CART name.

In December 1997, Championship Auto Racing Teams, Inc., (a Delaware corporation) was formed to serve as a holding company for CART and its subsidiaries (the "Reorganization"). Each outstanding share of common stock of CART was acquired in exchange for 400,000 shares of common stock of the Company. References to the "Company" mean Championship Auto Racing Teams, Inc. and its subsidiaries.

Championship Auto Racing Teams, Inc., through CART, its wholly-owned subsidiary, owned, operated and sanctioned the open-wheel motorsports series known in 2003 as the Bridgestone Presents the Champ Car World Series Powered By Ford. CART was responsible for organizing, marketing and staging each of the races in the Champ Car World Series. The Company also acted as a promoter at certain events. The Company staged events at four different types of tracks, including superspeedways, ovals, temporary road courses and permanent road courses, each of which required different skills and disciplines from the drivers and teams.

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

On August 18, 2003, we publicly announced that we had received a proposal from Open Wheel Racing Series ("Open Wheel") related to the acquisition of the Company and that we were engaged in negotiations regarding a possible transaction with Open Wheel.

On August 24, 2003, we publicly announced that our board of directors had instructed management to continue negotiating with Open Wheel with respect to all terms related to a possible acquisition of the Company. The Company, Open Wheel and their respective advisors continued to engage in negotiations regarding the terms of a possible transaction and related definitive agreements.

On September 10, 2003, representatives of the Company, Open Wheel and Open Wheel Acquisition Corp., a wholly-owned subsidiary of Open Wheel, executed and delivered the merger agreement and other related agreements and issued a joint press release announcing the proposed transaction.

7

On December 2, 2003, we announced that representatives of Open Wheel had informed us that Open Wheel believed that a number of conditions of the pending merger between the parties would not be satisfied by the time of the special meeting of stockholders that was scheduled for December 19, 2003.

On December 15, 2003, we announced that we had entered into an Asset Purchase Agreement ("the Agreement") with Open Wheel. The Agreement would allow Open Wheel to purchase the assets of CART, Inc. needed to operate the Champ Car World Series and the stock of Pro-Motion Agency, Inc., our subsidiary that operates the Toyota Atlantics series and CART Licensed Products, Inc., our subsidiary that operates our licensed merchandise function. In addition, Open Wheel would assume from us and CART, Inc. the rights and obligations under certain promoter, sponsor and other contracts. Open Wheel stated that it intended to continue to operate the Champ Car World Series and the Toyota Atlantic series. The total consideration that would be paid under the agreement was \$3.0 million less \$1.5 million in 2003 prize money to teams who were not affiliated with Open Wheel; which was an obligation of CART, Inc. that would be assumed by Open Wheel. The Agreement terminated the previously announced merger agreement that we had entered into with Open Wheel on September 10, 2003.

On December 16, 2003, CART, Inc. filed a petition under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court Southern District of Indiana (RE CART, Inc., Case No. 03-23385-FJO-11).

An Amendment by Interlineation (the "Amendment") with respect to the Agreement was entered into on January 15, 2004 to reflect the change in consideration and the assumption of certain claims.

On February 13, 2004, the assets of CART, Inc, the stock of Pro-Motion Agency, Inc. and CART Licensed Products, Inc., were sold to Open Wheel for total cash consideration of \$3.3 million, assumption of liabilities of \$1.4 million in 2003 prize money to teams who were not affiliated with Open Wheel which was an obligation of CART, Inc., forgiveness of \$1.3 million in prize money due principles of Open Wheel which was an obligation of CART, Inc. and the assumption of certain promoter, sponsor and other contracts, pursuant to an order of the bankruptcy court at a hearing held on January 28, 2004.

CART, Inc. continues to operate as debtor-in-possession under the Bankruptcy Code in order to wind up its affairs. On August 3, 2004 CART, Inc. filed CART's Amended Chapter 11 Plan (the "Plan") and the Second Amended Disclosure Statement For Amended Chapter 11 Plan Of CART, Inc. (the "Disclosure Statement") with the Bankruptcy Court. The Plan provides for the distribution of

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

the asset sale proceeds and other currently available cash and the liquidation and distribution of the remaining estate assets to CART, Inc.'s creditors. The Disclosure Statement was approved as containing adequate information by the Bankruptcy Court on August 3, 2004. The hearing on the confirmation of the plan was held on September 13, 2004. On September 23, 2004, the Bankruptcy Court entered its Findings Of Fact, Conclusions Of Law, And Order Under 11 U.S.C.ss.ss.1129(a) And (b) And Fed. R. Bankr. P. 3020 Confirming CART's Amended Chapter 11 Plan.

We currently intend to liquidate our remaining assets, pay off our remaining liabilities, and complete the process of liquidation and winding up the Company's affairs as soon as practicable. Our Board of Directors has not adopted a plan of liquidation and dissolution at this time, but will consider this option when the liquidation and bankruptcy of our subsidiary CART, Inc. is complete and after approval by our shareholders. In the event that our Board of Directors adopts a plan of liquidation and dissolution, we would expect to incur liquidation expenses, in addition to payments of ongoing operating expenses and settlement of existing or potential obligations. Liquidation expenses may include, among others, employee salaries, severance and related costs, legal and accounting fees, as well as payments to a liquidation trustee. While we cannot currently make a precise estimate of the expenses, we believe that a significant portion of our current cash may be required to pay the above expenditures.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed above, the Company's intention to liquidate the remaining

8

assets, pay off the remaining liabilities, and complete the process of liquidation and dissolution of the Company's affairs raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Upon completion of the sale of substantially all of our operating assets to Open Wheel in February 2004, most of our employees resigned and accepted employment with Open Wheel and we ceased operations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**PRINCIPLES OF CONSOLIDATION.** The consolidated financial statements of the Company for the three and six months ended June 30, 2003, include the financial statements of Championship Auto Racing Teams, Inc. and its wholly-owned subsidiaries - CART, Inc. ("CART"), Pro-Motion Agency, Ltd. and CART Licensed Products, Inc. As of March 7, 2003, the consolidated financial statements also include the financial statements of Raceworks, LLC, a wholly owned subsidiary (See Note 8). For the three and six months ended June 30, 2004 the financial statements include the financial statements of Championship Auto Racing Teams, Inc. and its wholly-owned subsidiaries - CART, Inc. and Raceworks, LLC and through February 13, 2004, Pro-Motion Agency, Ltd. and CART Licensed Products, Inc. All significant intercompany balances have been eliminated in consolidation.

**BASIC AND DILUTED LOSS PER SHARE.** Diluted per share amounts assume the exercise of shares issuable under certain stock option plans when dilutive. Due to losses from operations, no shares were included from the dilutive loss per share calculation due to their anti-dilutive effect for the three and six months ended June, 30, 2004 and 2003.

**ACCOUNTING PRONOUNCEMENTS.** In January 2003, the FASB issued FASB



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

Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entity." The term "variable interest" is defined in FIN 46 as "contractual, ownership or other pecuniary interests in an entity that change with changes in the entity's net asset value." Variable interests are investments or other interests that will absorb a portion of an entity's expected losses if they occur or receive portions of the entity's expected residual returns if they occur. The Company does not expect the recognition provisions of FIN 46 to have a material impact on the Company's financial position or results of operations.

In March 2004, the Emerging Issues Task Force ("EITF") reached a consensus on Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1 provides guidelines for the evaluation and determination of whether a loss on certain investments is other-than-temporary and requires certain additional quantitative and qualitative disclosures pertaining to unrealized investment losses in a company's annual financial statements. The provisions of EITF 03-1 became effective for the Company in the third quarter 2004. The Adoption did not have a material effect on its results of operations or its financial position.

STOCK BASED COMPENSATION. On December 31, 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based methods of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results.

As permitted by SFAS No. 123, the Company has chosen to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") in accounting for its stock

9

options granted to employees and directors. Under APB No. 25, the Company does not recognize compensation expense on the issuance of its stock options because the option terms are fixed, and the exercise price equals the market price of the underlying stock on the grant date.

However, as required by SFAS No. 123, companies who have chosen to follow APB No. 25 are required to calculate pro forma information as if it had calculated compensation based on the fair value at the grant date for its stock options granted to employees and directors. In the second quarter of 2004 and 2003, there was no compensation expense under APB No. 25.

(In Thousands)	Three Months Ended June 30, 2004	2003	Six Mon 200
	-----	-----	-----
NET INCOME (LOSS)			
As reported	\$ 361	\$ (34,513)	\$ (
Total stock-based employee compensation expense determined under the fair value based method, net of tax	(358)	(578)	
Pro forma	\$ 3	\$ (35,091)	\$ (
DILUTED INCOME (LOSS) PER SHARE			
As reported	\$ 0.02	\$ (2.34)	\$

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

Total stock-based employee compensation expense determined under the fair value based method, net of tax	(0.02)	(0.04)	
	-----	-----	-----
Pro forma	\$ 0.00	\$ (2.38)	\$
	=====	=====	=====

RECLASSIFICATIONS. Certain reclassifications have been made to the 2003 unaudited consolidated financial statements in order for them to conform to the 2004 presentation.

MANAGEMENT ESTIMATES. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period presented. The actual outcome of the estimates could differ from the estimates made in the preparation of the consolidated financial statements.

### 3. SHORT-TERM INVESTMENTS

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

(IN THOUSANDS)	COST	FAIR VALUE	GROSS UNREALIZED	
			GAIN	LOSS
	-----	-----	-----	-----
JUNE 30, 2004				
U.S. agencies securities	\$3,286	\$ 3,291	\$ 5	\$ --
	=====	=====	=====	=====
DECEMBER 31, 2003				
U.S. agencies securities	\$7,306	\$ 7,356	\$ 50	\$ --
	=====	=====	=====	=====

Net proceeds from sales of investments for the six months ended June 30, 2004 and 2003 were approximately \$4.0 million and \$34.9 million, respectively.

10

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

### 4. NOTES RECEIVABLE

In June 2003, the Company entered into an amendment to a sanction agreement with a promoter where we accepted a note in the amount of \$400,000 as payment for a portion of the sanction fee. This note is payable in 36 equal monthly installments, bearing interest at 10% per annum, beginning January 1, 2004. The note is collateralized by all products and proceeds of all other events staged by the promoter at the promoter's facility. We have not received any payments on the note which were to begin on January 1, 2004. After an assessment of the financial condition of the promoter and other considerations it was determined the note should be written-down to management's estimate of its fair value of \$150,000 and a loss was recorded in regard to the note at December 31, 2003.

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

### 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2004 and December 31, 2003:

	(IN THOUSANDS)		USEFUL LIFE (IN YEARS)
	JUNE 30, 2004	DECEMBER 31, 2003	
	-----	-----	-----
Engines	\$ --	\$ 2,273	2
Equipment	112	5,251	5-20
Furniture and fixtures	--	248	10
Vehicles	--	2,377	5-7
Other	--	154	5 (except leasehold improvements)
	-----	-----	
Total	112	10,303	
	-----	-----	
Less accumulated depreciation	(42)	(5,318)	
	-----	-----	
Property and equipment (net)	\$ 70	\$ 4,985	
	=====	=====	

Property and equipment were written down to their fair-values as of December 31, 2003, pursuant to an Asset Purchase Agreement entered into with Open Wheel Racing Series, LLC. The remaining assets relate to our subsidiary Raceworks, LLC. These items are currently idle and not currently in service.

### 6. SEGMENT REPORTING

The Company had two reportable segments, sanctioning and race promotions which was added in 2003. There were no prior period adjustments relating to the new reportable segment.

Sanctioning encompasses all the business operations of organizing, marketing and staging all of our open-wheel racing events when we acted as a sanctioning body as well as corporate expenses. We received a sanction fee from the event promoter for our services that is either fixed or is based upon a profit sharing agreement. Sanction fees revenue, sponsorship revenue, television revenue, engine lease revenue, race distributions and race expenses, television expenses and administrative and indirect expenses are recognized in the sanctioning segment.

Race promotions encompasses all the business operations of marketing and promoting our open-wheel racing events when we acted as promoter and have exclusive rights to the event. We received the revenues from the event and were responsible for the expenses of the event.

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 were substantially used in the sanctioning segment in the United States. The Company evaluates performance based on income before income taxes.

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

Because we have ceased operations and intend to liquidate our remaining assets we no longer have any race promotion activity. All significant activity during 2004 can be characterized as corporate activity

(\$ in thousands)	THREE MONTHS ENDED JUNE 30,			
	SANCTIONING	RACE PROMOTIONS	OTHER*	TOTAL
2003				
Revenues	\$ 9,341	\$ 5,016	\$ 51	\$ 14,408
Interest income (net)	380	--	3	383
Depreciation and amortization	1,009	--	15	1,024
Segment income (loss) before income taxes	(23,452)	(5,561)	2	(29,011)

(\$ in thousands)	SIX MONTHS ENDED JUNE 30,			
	SANCTIONING	RACE PROMOTIONS	OTHER*	TOTAL
2003				
Revenues	\$ 15,346	\$ 5,020	\$ 206	\$ 20,572
Interest income (net)	866	--	6	872
Depreciation and amortization	1,807	--	37	1,844
Segment income (loss) before income taxes	(37,058)	(5,890)	106	(42,842)

\* Segment is below quantitative thresholds for presentation as a reportable segment. These amounts are related to the Company's licensing royalties for 2003.

Reconciliations to consolidated financial statement totals are as follows:

(\$ in thousands)	DECEMBER 31, 2003
Total assets for sanctioning segment	\$ 18,925
Total assets for race promotion segment	894
Other assets	226
Total consolidated assets	\$ 20,045

### 7. COMMITMENTS AND CONTINGENCIES

**LITIGATION.** On November 4, 2003, 88 Corp. filed suit against CART, Inc. in the United States Federal District Court for the Central District of California. 88 Corp., the promoter of the CART Champ Car World Series race at the California Speedway in Fontana, California, claimed that the race which was to be held on November 2, 2003 was canceled due to a "force majeure" and requested a judicial determination as to whether or not the organizational and rights fee of \$2.5 million, previously paid by 88 Corp. to CART, minus reasonable expenses incurred

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

by CART, should be refunded to 88 Corp. As a result of the bankruptcy of CART, this litigation was suspended. 88 Corp. has filed a proof of claim against CART in the bankruptcy court proceedings requesting repayment of the \$2.5 million, imposition of a constructive trust, and such other relief as the bankruptcy court deems appropriate. CART has objected to the claim and has asserted against 88 Corp. a claim for wrongful termination of the sanction agreement as it relates to the 2003 and 2004 races in the amount of \$5.2 million. These claims

12

are currently pending in bankruptcy court and we are unable to make a determination as to the likelihood of an unfavorable outcome or estimate the amount or range of the recovery or loss.

On December 16, 2003, CART, Inc., the Company's wholly owned subsidiary, filed for protection under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court, Southern District of Indiana, Indianapolis Division. CART, Inc.'s Chapter 11 Plan was filed with the Bankruptcy Court on August 3, 2004. The hearing on confirmation of the plan was held on September 13, 2004. On September 23, 2004, the Bankruptcy Court confirmed CART's Amended Chapter 11 Plan. Based upon filings by creditors of CART, Inc. , there may be claims by creditors against CART, Inc. which could result in litigation against CART, Inc. in Bankruptcy Court. The Company is currently unable to determine the extent of these asserted claims and whether or not they will ultimately result in litigation involving CART, Inc. and the Company.

On December 12, 2003, S. R. Holdings Co., filed an action against the Company and Raceworks, LLC, its wholly owned limited liability company, for an alleged breach of contract to provide concession services at the Champ Car World Series race held in Miami, Florida in 2003 and in future years. The case was filed in the Circuit Court of Miami, Dade County, Florida. The Company and S. R. Holdings Co. have agreed to settle all claims for a payment by the Company of approximately \$20,000. The parties are finalizing the Settlement Agreement and dismissal of the lawsuit.

On August 5, 2004, the Company was served with a complaint to avoid and recover preferential transfers filed on behalf of WorldCom, Inc. and MCI, Inc., in the United States Bankruptcy Court for the Southern District of New York. The action alleges that the Company received \$1,500,000 in July of 2002 which was a payment within 90 days of the date that WorldCom, Inc. and its subsidiaries commenced their bankruptcy by filing under Chapter 11 of the Bankruptcy Code. The Company has not filed an answer at this point in time and is unable to make a determination as to the likelihood of an unfavorable outcome. The range of the possible loss is up to \$1,500,000.

As we have previously reported, we are party 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 our financial position or future results of operations.

### 8. RACEWORKS, LLC

On March 7, 2003, the Company acquired one hundred percent (100%) of the membership interests in Raceworks, LLC ("Raceworks"). The results of Raceworks' operations have been included in the consolidated financial statements since that date. Raceworks was a motorsports promotion company and held a revocable license agreement to annually conduct a street race in downtown Miami through 2017, with an option to extend for an additional ten (10) years. The aggregate purchase price was \$1.2 million including \$473,000 of cash and a promissory note of \$722,000.

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

The following table summarizes the estimated fair values, at the date of acquisition, of the assets acquired and liabilities assumed as part of the acquisition.

13

Current assets	\$ 449,000
Property and equipment	4,120,000
Other assets	36,000
Intangible assets including goodwill	1,262,000
	-----
Total assets acquired	5,867,000
	-----
Current liabilities	(1,916,000)
Long-term debt	(2,778,000)
	-----
Total liabilities assumed	(4,694,000)
	-----
Net assets acquired	\$ 1,173,000
	=====

The acquisition was accounted for using the purchase method of accounting. Under purchase accounting, the total purchase price has been allocated to the tangible and intangible assets and liabilities of Raceworks based upon their respective fair values as of the date of the acquisition. An allocation of the purchase price has been made to major categories of assets and liabilities based on available information.

In December 2003, Racework's operations were discontinued and a wind-up of business is currently under way due to CART, Inc.'s filing bankruptcy and the subsequent sale of its assets to Open Wheel and CART, Inc.'s and Open Wheel's decision not to continue racing in Miami.

### 9. LONG TERM DEBT

In July 2002, the Company guaranteed a \$1.8 million commercial term loan in connection with the operations of Raceworks, LLC. The Company subsequently assumed this loan in conjunction with the acquisition of Raceworks, LLC. The principal on the loan was to be paid quarterly, commencing on October 31, 2003 and on the last day of each January, April, July and October thereafter, in the amount of \$50,000 per quarter. Payments of \$50,000 each were made for the October 2003 and January 2004 quarters. On May 10, 2004, The Company entered into an assignment and release agreement that was for full and final settlement of any and all obligations related to the loan in exchange for a cash payment from the Company of the remaining principal balance of \$1,700,000, which was paid in full on May 7, 2004.

### 10. DEFERRED TAXES

SFAS No. 109 requires that net deferred tax assets be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. At June 30, 2004, the Company had a deferred tax asset from U.S. net operating loss carryforwards of \$30.4 million. This carryforward will expire in 20 years. Failure to achieve taxable income within the carryforward period would affect the ultimate realization of the net deferred tax asset. Due to the financial condition of the Company described in Note 1, management does not

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

believe that the deferred tax assets will be realized. Therefore, the tax benefit for current year losses and net deferred tax assets recorded at June 30, 2004 has been reduced by a full valuation allowance. The tax benefit recorded for the six months ended June 30, 2004 represents management's estimate for tax refunds expected to be received by the Company through the utilization of net operating loss carryback claims previously deemed not realizable.

### 11. ASSET IMPAIRMENT CHARGES

The Company recognized a charge of \$890,000 in race promotion expense during the quarter ended June 30, 2003 in connection with the impairment of prepaid expenses for a self-promoted event that occurred on July 5, 2003. Expenses directly related to an event are treated as a prepaid expense asset and are recognized as an expense in the period in which the event takes place, unless it can be determined that prepaid expenses will not be recovered from the revenues of the event. The prepaid asset is then deemed

14

impaired and recognized as an expense in the period when it is determined unrecoverable. Based on information available at June 30, 2003, management determined that those assets were not recoverable.

### 12. CART, INC. BANKRUPTCY AND SUBSEQUENT EVENTS

CART, Inc. Bankruptcy:

On December 16, 2003, CART, Inc., the Company's largest subsidiary that operated the Champ Car World Series filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code in the United States Bankruptcy Court Southern District of Indiana (RE CART, Inc., Case No. 03-23385-FJO-11).

In the Chapter 11 case substantially all of the liabilities as of the filing date are subject to compromise. The following table sets forth a break down of these liabilities:

Liabilities Subject to Compromise	In thousands	
	June 30, 2004	December 31, 2003
Accounts Payable	\$ 1,728	\$ 4,848
Accrued Payroll	274	68
Other Accrued Payables	140	710
Total liabilities subject to compromise	\$ 2,142	\$ 5,626
	=====	=====

Liabilities subject to compromise have been reduced from December 31, 2003 due to the following:

In January 2004, the bankruptcy court approved payments related to pre-petition employee expense reimbursements and health benefits in the amount of \$28,327.

On February 13, 2004, the assets of CART, Inc, the common stock of Pro-Motion Agency, Inc. and CART Licensed Products, Inc., were sold to Open Wheel for total cash consideration of \$3.3 million less cash sold of \$221,000. The agreement also included Open Wheel assuming \$1.4 million in 2003 prize money to teams who were not affiliated with Open Wheel and forgiveness of \$1.3 million

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

in prize money due principals of Open Wheel; all of the 2003 prize money was an obligation of CART, Inc., and included in liabilities subject to compromise at December 31, 2003. In addition, Open Wheel assumed certain promoter, sponsor and other contracts. Prior to finalizing the sale, CART, Inc. paid pre-petition payables in the amount of \$492,000 related to the contracts assumed by Open Wheel. The sale agreement was pursuant to an order of the bankruptcy court at a hearing held on January 28, 2004. Other contracts assumed by Open Wheel and settlements entered into in the first quarter of 2004, reduced liabilities subject to compromise by \$162,000 and \$180,000 respectively.

A substantial dollar amount of claims were filed that are not included in CART, Inc.'s liabilities as of June 30, 2004. The total amount of claims filed by potential creditors and debtor scheduled amounts with the bankruptcy court totaled \$12.2 million, excluding the inter-company liability to CART, Inc.'s parent company, Championship Auto Racing Teams, Inc. of \$61.5 million. The total claims exceed the liabilities recorded on CART's balance sheet because the total claims represent not only accounts payable to each potential creditor but also claims for future payments, disputed amounts owed to creditors, and potential damages for contractual breaches. The following table sets forth claims filed by potential creditors that are not included in CART, Inc.'s liabilities as of June 30, 2004:

15

Claims Not included in Liabilities at June 30, 2004	In thousands
88-Corporation-cancellation by promoter of Fontana race	\$ 2,500
Brands Hatch Circuits, Ltd.-termination of race promotion agreement	1,150
S.R. Holdings -concession contract for Raceworks, Inc.	1,000
Employment related contracts	500
IMG Motorsports-Cleveland, Inc.-Cleveland race promotion	438
Stars of Tomorrow-Promotion agreement	325
Other Claims	500
	-----
Total	\$ 6,413
	=====

Championship Auto Racing Teams, Inc. the parent company of CART, Inc., has entered into an agreement whereby it will subordinate its claim for the inter-company liability to the other creditors in exchange for the agreement of the unsecured creditors of CART releasing the Company from all claims that could be asserted against the Company.

### Bankruptcy Subsequent Events:

CART, Inc. continues to operate as debtor-in-possession under the Bankruptcy Code in order to wind up its affairs. On August 3, 2004 CART, Inc. filed CART's Amended Chapter 11 Plan (the "Plan") and the Second Amended Disclosure Statement For Amended Chapter 11 Plan Of CART, Inc. (the "Disclosure Statement") with the Bankruptcy Court. The Plan provides for the distribution of the asset sale proceeds and other currently available cash and the liquidation and distribution of the remaining estate assets to CART, Inc.'s creditors. The Disclosure Statement was approved as containing adequate information by the Bankruptcy Court on August 3, 2004. The hearing on the confirmation of the plan was held on September 13, 2004. On September 23, 2004, the Bankruptcy Court entered its Findings Of Fact, Conclusions Of Law, And Order Under 11 U.S.C.ss.1129(a) And (b) And Fed. R. Bankr. P. 3020 Confirming CART's Amended



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

Chapter 11 Plan.

The following reflects unaudited balance sheet, statement of operations and statement of cash flows information as of and for the three and six months period ended June 30, 2004 for CART, Inc.:

16

CART, INC.  
DEBTOR IN POSSESSION  
CONDENSED BALANCE SHEET  
AS OF JUNE 30, 2004  
(DOLLARS IN THOUSANDS)

	UNAUDITED
	-----
Current Assets	
Cash and Cash Equivalents	\$ 3,948
Accounts Receivable	654
Notes Receivable	150
Prepaid Expenses	1
	-----
Total Current Assets	4,753
Total Assets	\$ 4,753
	=====
Current Liabilities	
Accounts Payable	\$ 171
Payroll	3
Other	328
Liabilities of CART, Inc. subject to compromise	2,142
	-----
Total Current Liabilities	2,644
Inter-company Payable-Championship Auto Racing Teams, Inc.	61,564
	-----
Total Liabilities	\$ 64,208
Stockholder's Deficiency	
Common Stock	102
Additional Paid In Capital	15,975
Accumulated Deficit	(75,532)
	-----
Total Stockholder's Deficiency	(59,455)
	-----
Total Liabilities and Stockholder's Deficiency	\$ 4,753
	=====

CART, INC.  
DEBTOR IN POSSESSION  
CONDENSED STATEMENT OF OPERATIONS  
FOR THE THREE AND SIX MONTHS-ENDED JUNE 30, 2004  
(Dollars in Thousands)

Three Months

Six Months

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

	Ended June 30, Unaudited -----	Ended June 30, Unaudited -----
REVENUES:		
Other revenue	\$ 47	\$ 85
	-----	-----
Total revenues	47	85
EXPENSES:		
Administrative and indirect expenses	179	1,510
Total expenses	179	1,510
	-----	-----
OPERATING LOSS	(132)	(1,425)
Interest income (expense)	1	(7)
	-----	-----
NET LOSS	\$ (131)	\$ (1,432)
	=====	=====

17

CART, INC.  
STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS-ENDED JUNE 30, 2004  
(Dollars in Thousands)

	Unaudited -----
CASH FLOW FROM OPERATING ACTIVITIES:	
Net Loss	\$ (1,432)
Changes in asset and liabilities that provided (used) cash:	
Accounts and notes receivable	672
Prepaid expenses and other assets	346
Accounts payable	(1,273)
Accrued liabilities	819
	-----
Net cash used in operating activities	(868)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of property and equipment	3,260
	-----
Net cash used in investing activities	3,260
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments of Inter company payables	(425)
	-----
Net cash used in financing activities	(425)
NET DECREASE IN CASH AND CASH EQUIVALENTS	1,967
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,980
	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,947
	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for:	
Income taxes	\$ --
	=====

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

Interest \$ --  
=====

18

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

Upon completion of the sale of substantially all of our operating assets to Open Wheel in February 2004, most of our employees resigned and accepted employment with Open Wheel and we ceased operations. We cannot list here all the risks and uncertainties that could cause our financial results to differ materially from our present expectations or projections regarding the estimated distribution to shareholders, but we can identify many of them. These are set forth in "Factors That May Affect Future Results."

The following information is presented primarily for historical purposes and should be read noting that the Company is no longer involved in an active business.

### CRITICAL ACCOUNTING POLICIES

#### Use of Estimates

The following discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Significant accounting estimates include the allowance for doubtful accounts for trade accounts receivable, impairment of fixed assets and deferred race expenses, the recoverability of intangible assets and goodwill, income taxes and related valuation allowances, certain accrued liabilities and fair values allocated to assets acquired and liabilities assumed in business combinations.

We believe that the estimates, assumptions and judgments involved in the accounting policies described below have a material impact on our financial statements. These areas are subject to the risks and uncertainties we describe in this report. Actual results, therefore, could differ from those estimated.

#### Litigation

We are involved in litigation as a part of our normal course of business. Our litigation proceedings are included in our most recent Form 10-K, Item 3: Legal Proceedings and updated, as needed, in Part II-Other Information, Item 1: Legal Proceedings in this and subsequent Form 10-Qs. When a complaint is filed by or against us that represents a material claim, we disclose the proceeding in our financial statements. When a claim against us is probable and reasonably estimable, we record the expense. When we are the party filing the claim, we do not record gain contingency until any damages from the claim are assured.

### RESULTS OF OPERATIONS THREE MONTHS ENDED JUNE 30, 2004

We plan to liquidate our remaining assets, pay off our remaining liabilities and complete the process of liquidation and winding up the Company's

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

affairs as soon as practicable.

In 2004, the only revenues the Company expects to receive are from sanctioning revenues paid to us by Open Wheel for sanctioning their races for the 2004 season, miscellaneous revenue and interest income from our remaining cash and short-term investments. Sanctioning fees are \$12,500 per domestic race and it is estimated that there will be eight domestic events in 2004.

19

Expenses will be incurred to complete the wind up of the Company. Wind up expenses will be incurred for salaries and benefits, severance and related expenses, office, legal, accounting and public company expenses. CART, Inc., will also incur expenses related to setting up a liquidation trust and expenses of a liquidation trustee as well as other expenses related to its Chapter 11 Bankruptcy filing.

Total revenues were \$47,000 for the three months ended June 30, 2004, related to sanction fees of \$38,000 and other miscellaneous revenues.

Total expenses were \$596,000 for the three months ended June 30, 2004. Expenses consisted of legal and consulting fees of \$320,000, salaries, employee and related expenses of \$302,000 and other office and miscellaneous expenses and credits.

Net loss before income taxes was \$516,000. An income tax benefit of \$877,000 was recognized during the quarter, representing management's estimate for tax refunds expected to be received by the Company through the utilization of net operating loss carryback claims previously deemed not realizable. Net income for the quarter ended June 30, 2004 was \$361,000.

### RESULTS OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2004

Total revenues were \$104,000 for the six months ended June 30, 2004, related to sanction fees of \$38,000, equipment rental of \$12,000 and other miscellaneous revenues of \$54,000.

Total expenses were \$2.8 million for the six months ended June 30, 2004. Administrative expenses consisted of normal operating expenses through, February 13, 2004, the date the "Asset Purchase Agreement" was finalized. Expenses consisted of legal and consulting fees of \$1.7 million, salaries, employee and severance related expenses of \$893,000, offices expenses of \$135,000 and other miscellaneous expenses.

Net loss before income taxes was \$2.6 million. An income tax benefit of \$877,000 was recognized during the six months ended June 30, 2004 for reasons stated above. Net operating loss for the six months ended June 30, 2004 was \$1.7 million.

### RESULTS OF OPERATIONS THREE MONTHS ENDED JUNE 30, 2003

#### REVENUES

Prior to 2004, we derived revenues primarily from (i) sanction fees, (ii) sponsorship, (iii) television rights, (iv) race promotion, (v) engine leases and (vi) other revenue. Following is an explanation of our individual revenue items:

**SANCTION FEES.** We received sanction fees from the promoters of our races (other than races we promote). The fees are based on contracts between the promoters and CART. We had entered into agreements with certain promoters of the Champ Car World Series for a reduction in the previously contracted sanction

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

fees. In return, we were to receive a share of the net income from the event. The percentage of net income, if any, was also included in sanction fees. Therefore, there was less visibility and less predictability for CART's earnings than in the previous financial model as CART's revenues were affected by the success of these races.

**SPONSORSHIP REVENUE.** We received corporate sponsorship revenue based on negotiated contracts. An official corporate sponsor received status and recognition rights, event rights and/or product category exclusivity.

We developed an Entrant Support Program for the 2003 Champ Car World Series. The program was part of an enhanced incentive program we developed with our teams, whereby we provided financial support to new and existing teams to run in the Champ Car World Series and, in exchange, each team provided logo space on its cars for Champ Car-designated sponsors to advertise. Sponsorship fees, if any,

20

paid by these corporate sponsors were to be retained by us to offset the financial support we were providing to the teams. The program was to also combine Champ Car World Series event and team sponsorship opportunities, along with advertising on television and in print media. None of these sponsorship packages were sold in 2003.

**TELEVISION REVENUE.** In 2003, we had contracts for our domestic television rights with CBS and Speed Channel. We broadcasted seven races on CBS and eleven on Speed Channel. One of our races was broadcast on HD Net TV where HD Net TV provided the air time and we shared the cost of production. We bought the air-time and paid for production for the CBS races. Speed Channel provided the air-time for the races aired on its network, including Champ Car practice and qualifying and a half-hour pre-race show. We paid for production for the races to be broadcast on the Speed Channel network. We received the advertising inventory for all shows aired on all networks and were responsible for selling the advertising.

In 2003, we had international television rights with:

- Gold Coast Motor Events Co. (Australia)
- Molstar (Canada)
- Promotion Entertainment of Mexico, LLC (Mexico)
- Octagon CSI (all others)

A rights fee was paid to us by each international broadcast partner for rights to air the Champ Car race either live, time-delayed or as a highlight package, in the country where they held our rights. See "Other Related Party Transactions" for a description of our arrangements with Promotion Entertainment of Mexico, LLC, an entity principally owned by Mr. Gerald R. Forsythe, a 23% stockholder of the Company.

**RACE PROMOTION REVENUE.** In 2003, we promoted six of our races. Race promotion revenue included all the commercial rights associated with promoting a Champ Car event, such as admissions, event sponsorship and hospitality sales. In most cases we partnered with experienced race promoters to promote these events and we were responsible for selling all of the commercial rights of the event.

**ENGINE LEASE REVENUE.** In 2002, we purchased the engines that were used for the 2003 Champ Car World Series race season. Each team was required to use these

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

engines in order to compete in the series. We leased the engines to the teams for \$100,000 per car.

OTHER REVENUE. Other revenue included membership and entry fees, contingency awards money, royalties, commissions and other miscellaneous revenue items. Membership and entry fees were payable by Toyota Atlantic Championship competitors. In addition, we charged fees to competitors for credentials for all team participants and driver license fees for all drivers competing in the series. We received royalty revenue for the use of the CART service marks and trademarks on licensed merchandise that was sold both at tracks and at off-track sites. We received commission income from the sale of chassis and parts to our support series teams.

### EXPENSES

Prior to 2004, our expenses will primarily be incurred in the liquidation of assets and winding up the business. Expenses are expected to be incurred for salaries, benefits, miscellaneous office expenses, accounting and auditing fees and legal fees involving bankruptcy, public company matters, litigation and for expenses for settlement negotiations.

Our expenses were incurred primarily in, (i) distributions to our race teams: prize money, participation payments and team assistance, (ii) race operations: expenses directly related to sanctioning the

21

events, (iii) race promotion: expenses related to races we promote, (iv) television: expenses directly related to buying air time and production of our domestic and international television programming and (v) administrative and indirect: expenses related to administration, marketing, sales and public relations. Set forth below is an explanation of the individual expense line items:

RACE DISTRIBUTIONS. We paid the racing teams for their on-track performance. Race distributions included the following for each event:

- event purse which was paid based on finishing position
- contingency award payments
- year-end point fund, which was paid based on year end finishing position
- participation payments
- entrant support payments
- team assistance

We paid awards to the teams, based on their cumulative performance for the season, out of the year-end point fund. Participation payments were made in 2003 to each of our entries on a per car, per race basis. In addition, entrant support payments were made to participating teams as part of a financial incentive plan to attract and retain teams to compete in our series. The payments were made to teams in exchange for logo advertising space on their cars. We had the opportunity to sell and retain the revenue from the advertising. In 2003, we were providing assistance to certain teams to ensure that there are a sufficient number of race cars competing in our series.

RACE EXPENSES. We were responsible for officiating and administering all

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

of our events. Costs primarily included officiating fees, travel, per diem and lodging expenses for the following officiating groups:

- medical services
- race administration
- race officiating and rules compliance
- registration
- safety
- technical inspection
- timing and scoring

RACE PROMOTION EXPENSES. In 2003, we promoted six of our own events. Race promotion expenses related to all costs associated with staging a Champ Car event, including track rental, personnel costs and promotion of the event.

TELEVISION EXPENSES. In 2003, we bought the air time for our seven CBS races and a one hour preseason preview show at a cost of \$3.5 million. Speed Channel provided the air time for the races aired on its network, including Champ Car practice and qualifying and a half-hour pre-race show. We paid for production costs associated with the races to be broadcast on the Speed Channel network. One of our races was broadcast on HD Net TV which provided the air time and we shared the production costs. We also incurred expenses for our international production for all of our races.

ADMINISTRATIVE AND INDIRECT EXPENSES. Administrative and indirect expenses included all operating costs not directly incurred for a specific event, including:

- administration
- marketing and advertising
- sponsorship sales and service
- public relations

22

For the three months ended June 30, 2003, revenues were \$14.4 million. Sanction fees were \$5.3 million and were attributable to the races in Long Beach, CA \$2.5 million, Milwaukee, WI and Monterrey, CA for \$1.4 million each. Sponsorship revenue and engine lease revenue are recognized on a pro-rata basis and was \$2.4 million and \$475,000, respectively, in the second quarter. Race promotion revenue was \$5.0 million. Television revenue for the races held in the quarter was \$713,000 and miscellaneous revenue was \$534,000.

Expenses for the three months ended June 30, 2003 were \$43.8 million. Race distributions for the first quarter were \$17.7 million, which consisted of \$3.8 million in purse and prize money and \$13.9 million in team support and assistance. Race operations and race promotion expenses were \$2.4 million and \$10.6 million, respectively, for the quarter. Television expense was \$5.9 million, administrative and indirect expenses were \$4.9 million, litigation expense was \$1.4 million and depreciation and amortization was \$1.0 million for the three months ended June 30, 2003.

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

Operating loss for the quarter ended June 30, 2003 was \$29.4 million. Interest income was \$383,000. An income tax expense of \$5.5 million was recognized for the quarter, due to setting up valuation allowances on deferred tax assets. Due to the financial condition of the company management does not believe that deferred tax assets will be realized. A net loss of \$34.5 million resulted due to the items discussed above for the three months ended June 30, 2003.

### RESULTS OF OPERATIONS SIX MONTHS ENDED JUNE 30, 2003

For the six months ended June 30, 2003, revenues were \$20.6 million. Sanction fees were \$8.3 million and were attributable to the races in St. Petersburg, Florida, \$500,000, Monterrey, Mexico \$2.5 Long Beach, CA \$2.5 million, Milwaukee, WI and Monterrey, CA for \$1.4 million each. Sponsorship revenue and engine lease revenue are recognized on a pro-rata basis and was \$4.0 million and \$950,000 respectively in the quarter. Television revenue for the races was \$903,000 and miscellaneous revenue was \$1.4 million.

Expenses for the six months ended June 30, 2003 were \$64.4 million. Race distributions for the quarter were \$28.7 million which consisted of \$5.1 million in purse and prize money and \$23.6 million in team support and assistance. Race operations and race promotion expenses were \$3.9 million and \$10.9 million respectively for the quarter. Television expense was \$7.4 million, administrative and indirect expenses were \$10.2 million, litigation expense was \$1.4 million and depreciation and amortization was \$1.8 million for the six months ended June 30, 2003.

Operating loss for the six months ended June 30, 2003 was \$43.8 million. Realized gain on investments for the quarter was \$85,000 and interest income was \$872,000. An income tax expense of \$660,000 was recognized for the quarter. A net loss of \$43.5 million resulted due to the items discussed above for the six months ended June 30, 2003.

### LIQUIDITY AND CAPITAL RESOURCES

We currently intend to liquidate our remaining assets, pay off our remaining liabilities and complete the process of liquidation and winding up the Company's affairs. Our Board of Directors has not adopted a plan of liquidation and dissolution at this time but will consider this option when the liquidation and bankruptcy of our subsidiary CART, Inc. is complete. In the event that our Board of

23

Directors adopts a plan of liquidation and dissolution, we would expect to incur liquidation expenses, in addition to payments of ongoing operating expenses and settlement of existing or potential obligations. Liquidation expenses may include, among others, employee salaries, severance and related costs, legal and accounting fees, as well as payments to a liquidation trustee. While we cannot currently make a precise estimate of the expenses, we believe a significant portion of our current cash may be required to pay the above expenditures.

Since our inception, we have funded our operations and capital expenditures from the proceeds of our public offerings and our cash reserves generated from operations. At June 30, 2004, we had \$8.3 million in working capital, and our primary source of liquidity was \$5.2 million in cash and cash equivalents. Our cash balance on June 30, 2004 was \$5.2 million, a net increase of \$2.0 million from December 31, 2003. This increase was primarily the result of net cash provided by the sale of certain CART, Inc. assets to Open Wheel of \$3.0 million and the sale of investments of \$4.0 million, partially offset by net cash used in operating activities of \$3.3 million and repayment of the



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

Raceworks, LLC note payable of \$1.7 million.

Our short term investment balance on June 30, 2004 was \$3.3 million, a net decrease of \$4.1 million from December 31, 2003. This decrease was primarily due to funding our operations during the six months ended June 30, 2004.

In April 2002, we entered into a lease for our new corporate headquarters in Indianapolis, Indiana. The lease commenced on May 1, 2002 and expires on October 31, 2010. The total amount due through the life of the lease as of June 30, 2004 is \$2.0 million. We have sublet this office space to Open Wheel, and retain office space for our use, at no cost. However, we remain liable on the lease.

Contractual Obligations	Payments due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating Leases*	\$1,956,779	\$ 154,483	\$926,895	\$617,930	\$257,471
Total Contractual Cash Obligations	\$1,956,779	\$ 154,483	\$926,895	\$617,930	\$257,471

\* Sublet to Open Wheel Racing Series for the amounts of lease obligations.

### FACTORS THAT MAY AFFECT FUTURE RESULTS

WE CANNOT ASSURE YOU OF THE AMOUNT, IF ANY, OF ANY DISTRIBUTION TO OUR STOCKHOLDERS UNDER A PLAN OF COMPLETE LIQUIDATION AND DISSOLUTION.

Liquidation and dissolution may not create value to our stockholders or result in any remaining capital for distribution to our stockholders. We cannot assure you of the precise nature and amount of any distribution to our stockholders pursuant to a plan of distribution. Uncertainties as to the precise net value of our non-cash assets and the ultimate amount of our liabilities make it impracticable to predict the aggregate net value, if any, ultimately distributable to our stockholders. The actual nature and amount of all distributions will depend in part upon our ability to settle our liabilities or potential liabilities. We may not be successful in doing so to return a meaningful amount of cash to our stockholders.

WE MAY NOT BE ABLE TO SETTLE ALL OF OUR OBLIGATIONS TO CREDITORS.

We have current and future obligations to creditors. These include, without limitation, long-term contractual obligations. As part of the wind down process, we will attempt to settle our obligations with our creditors. We may not, however, succeed in doing so. If we cannot reach an agreement with a

creditor concerning an obligation, that creditors may choose to bring a lawsuit against us. Any litigation could delay or even prevent us from completing the plan of dissolution. Moreover, amounts required to settle our obligations to creditors will reduce the amount of remaining capital available for distributions to stockholders.

WE WILL CONTINUE TO INCUR CLAIMS, LIABILITIES AND EXPENSES WHICH WILL REDUCE THE

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

AMOUNT AVAILABLE FOR DISTRIBUTION TO STOCKHOLDERS.

Claims, liabilities and expenses from operations (such as operating costs, salaries, directors' and officers' insurance, payroll and local taxes, legal, accounting and consulting fees and miscellaneous office expenses) will continue to be incurred as we wind down. These expenses will reduce the amount of assets available for ultimate distribution to stockholders. If available cash is not adequate to provide for our obligations, liabilities, expenses and claims, we may not be able to distribute meaningful cash, or any cash at all, to our stockholders.

DISTRIBUTION OF ASSETS, IF ANY, TO OUR STOCKHOLDERS COULD BE DELAYED.

Our Board of Directors has not established a firm timetable for proposing to our stockholders a plan of liquidation, nor can we assure approval of such a plan or the amount of any distributions to our stockholders. We are currently unable to predict the precise timing of any distribution, if any, pursuant to our wind down. The timing of distribution, if any, will depend on and could be delayed by, among other things, the timing of claim settlements with creditors and potential litigation. Additionally, a creditor could seek an injunction against the making of distributions to our stockholders on the ground that the amounts to be distributed were needed to provide for the payment of our liabilities and expenses. Additionally, we could seek protection from creditors under the federal bankruptcy code. Any action of this type could delay or substantially diminish, or eliminate, the amount available for distribution to our stockholders.

IF WE FAIL TO CREATE AN ADEQUATE CONTINGENCY RESERVE FOR PAYMENT OF OUR EXPENSES AND LIABILITIES, OUR STOCKHOLDERS COULD BE HELD LIABLE FOR PAYMENT TO OUR CREDITORS OF EACH SUCH STOCKHOLDER'S PRO RATA SHARE OF AMOUNTS OWED TO THE CREDITORS IN EXCESS OF THE CONTINGENCY RESERVE, UP TO THE AMOUNT ACTUALLY DISTRIBUTED TO SUCH STOCKHOLDER.

If a plan of dissolution is proposed to and ratified and approved by our stockholders, we will file a Certificate of Dissolution with the State of Delaware dissolving the Company. Pursuant to the Delaware General Corporation Law, we will continue to exist for three years after the dissolution becomes effective or for such longer period as the Delaware Court of Chancery shall direct, for the purpose of prosecuting and defending suits against us and enabling us gradually to close our business, to dispose of our property, to discharge our liabilities and to distribute to our stockholders any remaining assets. Under the Delaware General Corporation Law, in the event we fail to create an adequate contingency reserve for payment of our expenses and liabilities during this three-year period, each stockholder could be held liable for payment to our creditors of such stockholder's pro rata share of amounts owed to creditors in excess of the contingency reserve, up to the amount actually distributed to such stockholder.

However, the liability of any stockholder would be limited to the amounts previously received by such stockholder from us (and from any liquidating trust or trusts) in the dissolution. Accordingly, in such event a stockholder could be required to return all distributions previously made to such stockholder. In such event, a stockholder could receive nothing from us under the plan of dissolution. Moreover, in the event a stockholder has paid taxes on amounts previously received, a repayment of all or a portion of such

amount could result in a stockholder incurring a net tax cost if the stockholder's repayment of an amount previously distributed does not cause a commensurate reduction in taxes payable. There can be no assurance that the

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

contingency reserve established by us will be adequate to cover any expenses and liabilities.

### WE DO NOT EXPECT TO RECOGNIZE ANY MATERIAL REVENUE IN THE FUTURE

We do not expect to recognize much, if any, additional revenue. Furthermore, it may be difficult to collect receivables now that we have announced our intent to wind down.

### WE WILL CONTINUE TO INCUR THE EXPENSES OF COMPLYING WITH PUBLIC COMPANY REPORTING REQUIREMENTS.

We have an obligation to continue to comply with the applicable reporting requirements of the Securities Exchange Act of 1934, as amended, referred to as the "Exchange Act," even though compliance with such reporting requirements is economically burdensome.

### RELATED PARTY TRANSACTIONS

We have historically entered into transactions with related parties, because several of our directors and one of our significant stockholders are team owners. We believe that all the transactions which we have entered into with our directors or significant stockholders have terms that are comparable to the terms that we could have entered into with unaffiliated third parties with respect to each of these transactions. In order to avoid conflicts of interest, any of our directors who was affiliated with an entity that was entering into a transaction with us would not vote on any matters related to such transactions and may have, in certain circumstances, refrained from participating in any discussions related to such transactions.

Gerald R. Forsythe, a 22.9% stockholder of the Company, is one of the principal members of Open Wheel which purchased the assets of CART, Inc. pursuant to an Asset Purchase Agreement, entered into in February 2004. The consideration paid to CART, Inc., for the purchase of the assets, along with the stock of Promotion Agency, Ltd. And CART Licensed Products, Inc. was total consideration of \$3.3 million in cash, the assumption by the buyer of \$1.4 million in prize money owed to teams not affiliated with the principals of Open Wheel, forgiveness of \$1.3 million in prize money due teams affiliated with principals of Open Wheel, including Mr. Forsythe and the assumption of certain promoter, sponsorship, and other contracts. The agreement was approved by the order of the bankruptcy court at a hearing on January 28, 2004.

In 2004, the Company is sanctioning the races for Open Wheel. The Company receives \$12,500 for each domestic race it sanctions and is reimbursed for various expenses it incurs in sanctioning the events.

We have also sub-leased our Indianapolis office and warehouse to Open Wheel for substantially the same terms as our lease, we remain obligated on the lease which runs through 2010.

### 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 factors listed below, among others, could cause the forward-looking statements to differ from actual results and plans:

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

Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained in the Company's SEC filings made from time to time, including, but not limited to, the Form 10-K for the year ended December 31, 2003. Copies of those filings are available from the Company and at the SEC's website [www.sec.gov](http://www.sec.gov). The Company undertakes no obligation to update publicly any forward-looking statements as a result of new information, future events, or otherwise.

### 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 June 30, 2004, our investments consisted of U.S. Agency issues, letters of credit, and money market funds. The weighted average maturity of our portfolio is 135 days. Because of the relatively short-term nature of our investments, our interest rate risk is not considered significant.

### ITEM 4: CONTROLS AND PROCEDURES

(a) As of June 30, 2004 we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) Upon completion of the sale of substantially all of our operating assets to Open Wheel in February 2004, most of our employees resigned and accepted employment with Open Wheel and we ceased operations. We are in the process of winding up the affairs of the Company. We currently have two employees the Chief Executive Officer and Chief Financial Officer and we also use temporary accounting help in winding up the Companies affairs. Subsequently, we have had a reduction in our accounting staff. We have reviewed and revised our internal controls due to the reduction in staff and change in operations and believe we have effective internal controls and proper approval and authorization processes in place.

27

CHAMPIONSHIP AUTO RACING TEAMS, INC.

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings.

On December 12, 2003, S. R. Holdings Co. filed an action against the Company and Raceworks, LLC, its wholly owned limited liability company, for an alleged breach of contract to provide concession services at the Champ Car World Series race held in Miami, Florida in 2003 and in future years. The case was filed in the Circuit Court of Miami, Dade County, Florida. The Company and S. R. Holdings Co. have agreed to settle all claims for a payment by the Company of approximately \$20,000. The parties are finalizing the Settlement Agreement and dismissal of the lawsuit.

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

(a) Exhibits.

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

- 31.1 Form 10-Q Certification by Christopher R. Pook, Chief Executive Officer dated as of September 29, 2004.
- 31.2 Form 10-Q Certification by Thomas L. Carter, Chief Financial Officer dated as of September 29, 2004.
- 32.1 Section 906 Certification by Christopher R. Pook, Chief Executive Officer dated as of September 29, 2004.
- 32.2 Section 906 Certification by Thomas L. Carter, Chief Financial Officer dated as of September 29, 2004.

(b) Reports on Form 8-K.

- 1) On August 24, 2004, Championship Auto Racing Teams, Inc. issued a press release announcing that it has filed its Annual Report on Form 10-K for the year ended December 31, 2003 as well as its 10-Q for the three-month period ended March 31, 2004.

28

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: September 29, 2004

By: /s/ Thomas L. Carter

-----  
Thomas L. Carter  
Chief Financial Officer

29