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CHAMPIONSHIP AUTO RACING TEAMS INC  
Form 10-Q  
November 15, 2002

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, 2002.
- ( ) 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) 715-4100  
-----

(Registrant's telephone number, including area code)

755 West Big Beaver Road, Suite 800, Troy, Michigan 48084  
-----

(Former name, address and former fiscal year, if changed since last report)

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 of common stock)

(outstanding at November 1, 2002)

This report contains 33 pages.

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CHAMPIONSHIP AUTO RACING TEAMS, INC.  
 CONSOLIDATED BALANCE SHEETS  
 AS OF SEPTEMBER 30, 2002 AND DECEMBER 31, 2001  
 (DOLLARS IN THOUSANDS)  
 (UNAUDITED)

SEPTEMBER  
 -----

ASSETS

CURRENT ASSETS:

Cash and cash equivalents \$  
 Short-term investments  
 Accounts receivable (net of allowance for doubtful accounts  
 of \$1,524 and \$7,338 at September 30, 2002 and December 31, 2001, respectively)  
 Current portion of notes receivable (net of allowance for doubtful notes  
 of \$124 and \$123, at September 30, 2002 and December 31, 2001, respectively)  
 Inventory  
 Prepaid expenses  
 Deferred income taxes

Total current assets

NOTES RECEIVABLE (net of allowance for doubtful notes of \$96 and \$96, at  
 September 30, 2002 and December 31, 2001, respectively)

PROPERTY AND EQUIPMENT- Net

NON-CURRENT DEFERRED INCOME TAXES

GOODWILL

OTHER ASSETS

TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable \$  
 Accrued liabilities:  
 Race expenses and point awards  
 Television expenses  
 Royalties  
 Payroll  
 Taxes  
 Other  
 Deferred revenue

Total current liabilities

DEFERRED INCOME TAXES

STOCKHOLDERS' EQUITY:

Preferred stock, \$.01 par value; 5,000,000 shares  
 authorized, none issued and outstanding at September 30, 2002  
 and December 31, 2001  
 Common stock \$.01 par value, 50,000,000 shares authorized, 14,718,134  
 and 14,718,134 shares issued and outstanding at September 30, 2002  
 and December 31, 2001, respectively  
 Additional paid-in capital  
 Retained earnings  
 Accumulated other comprehensive income

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Total stockholders' equity	1
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1

See accompanying notes to consolidated financial statements.

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CHAMPIONSHIP AUTO RACING TEAMS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	THREE MONTHS ENDED SEPTEMBER 30, 2002	2001
	-----	-----
REVENUES:		
Sanction fees	\$ 12,555	\$ 21,311
Sponsorship revenue	2,934	3,311
Television revenue	1,967	2,311
Race promotion revenue	--	--
Engine leases, rebuilds and wheel sales	--	--
Other revenue	1,081	1,311
	-----	-----
Total revenues	18,537	29,244
EXPENSES:		
Race distributions	8,427	8,427
Race expenses	4,110	3,311
Race promotion expense	5,452	5,452
Cost of engine rebuilds and wheel sales	--	--
Television expense	4,892	4,892
Administrative and indirect expenses (includes severance expense of \$0 and \$0 for the three and nine months ended September 30, 2002, respectively, and \$257 and \$1,453 for the three and nine months ended September 30, 2001, respectively)	8,966	9,966
Litigation expense	--	3,311
Relocation expense	--	--
Asset impairment and strategic charges	--	8,427
Depreciation and amortization	357	357
	-----	-----
Total expenses	32,204	33,366
OPERATING INCOME (LOSS)	(13,667)	(4,122)
Realized gain on sale of investments	2	1,311
Interest income (net)	882	1,311
	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES	(12,783)	(2,500)
Income tax expense (benefit)	(4,473)	--
	-----	-----
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	\$ (8,310)	\$ (2,500)
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (NET OF TAX)	\$ --	\$ --

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NET INCOME (LOSS)		-----	-----
		\$ (8,310)	\$ (1
		=====	=====
EARNINGS (LOSS) PER SHARE BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE:			
BASIC		\$ (0.56)	\$ (
		=====	=====
DILUTED		\$ (0.56)	\$ (
		=====	=====
NET EARNINGS (LOSS) PER SHARE:			
BASIC		\$ (0.56)	\$ (
		=====	=====
DILUTED		\$ (0.56)	\$ (
		=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING:			
BASIC		14,718	15
		=====	=====
DILUTED		14,718	15
		=====	=====

See accompanying notes to consolidated financial statements

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CHAMPIONSHIP AUTO RACING TEAMS, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002  
(UNAUDITED)  
(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL	ACCUMULATE	
	-----	-----	PAID-IN	RETAINED	COMPREHE
	SHARES	AMOUNT	CAPITAL	EARNINGS	INCOME (
	-----	-----	-----	-----	-----
BALANCES, DECEMBER 31, 2001	14,718	\$147	\$87,765	\$29,028	\$996
Net loss	--	--	--	(13,530)	--
Accumulated other comprehensive income	--	--	--	--	(61
Comprehensive loss					
BALANCES, SEPTEMBER 30, 2002	-----	-----	-----	-----	-----
	14,718	\$147	\$87,765	\$15,498	\$93
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

CHAMPIONSHIP AUTO RACING TEAMS, INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001  
 (UNAUDITED)  
 (DOLLARS IN THOUSANDS)

	2002	2001
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (13,530)	\$ 2,000
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Cumulative effect of accounting change (net of tax)	956	
Depreciation and amortization	1,045	1,000
Impairment of goodwill	--	500
Net loss from sale of property and equipment	17	1,000
Deferred income taxes	(7,743)	(4,000)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(3,997)	
Inventory	(25)	
Prepaid expenses	1,332	
Other assets	(29)	
Accounts payable	2,025	
Accrued liabilities	2,890	15,000
Deferred revenue	6,630	7,000
Deposits	--	
Net cash provided by (used in) operating activities	(10,429)	30,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(120,252)	(56,000)
Proceeds from sale of investments	120,036	60,000
Notes receivable	--	2,000
Acquisition of property and equipment	(1,971)	
Proceeds from sale of property and equipment	25	
Acquisition of trademark	--	
Net cash provided by (used in) investing activities	(2,162)	5,000
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	--	

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Repurchase of common stock	--	(15)
	-----	-----
Net cash used in financing activities	--	(15)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(12,591)	20
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	27,765	19
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 15,174	\$ 40
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	\$ 1	\$
	=====	=====
Interest	\$ --	\$
	=====	=====

See accompanying notes to consolidated financial statements.

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### 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 September 30, 2002 and the results of its operations and its cash flows for the three months and nine months ended September 30, 2002 and 2001.

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, 2002 and 2001 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, Inc. and its wholly-owned subsidiaries - CART, Inc., American Racing Series, Inc., Pro-Motion Agency, Ltd. and CART Licensed Products, Inc. At the end of the 2001 season, the Company discontinued the operations of American Racing Series, Inc. All significant intercompany balances have been eliminated in consolidation.

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BASIC AND DILUTED EARNINGS (LOSS) PER SHARE. Diluted per share amounts assume the exercise of shares contingently issuable under certain stock option plans when dilutive. Shares (in thousands) excluded from the dilutive per share calculations relating to these securities were approximately 1,079 and 771 for the three month periods ended September 30, 2002 and 2001, respectively, and 1,079 and 691 for the nine month periods ended September 30, 2002 and 2001, respectively.

ACCOUNTING PRONOUNCEMENTS. In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement supersedes 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 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 adopted this statement on January 1, 2002, and there was no impact on the financial statements upon adoption.

In June 2001, the FASB issued SFAS No. 141, "Accounting for Business Combinations." The statement changes the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting. The Company adopted this statement on January 1, 2002 and there was no impact on the financial statements upon adoption.

On April 30, 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." The statement is intended to update, clarify and simplify existing accounting pronouncements. Management does not believe this statement will have a material effect on its consolidated financial statements.

On July 30, 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Management does not believe this statement will have a material effect on its consolidated financial statements.

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RECLASSIFICATIONS. Certain reclassifications have been made to the 2001 unaudited consolidated financial statements in order for them to conform to the 2002 presentation.

USE OF ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Actual results could differ from those estimates.

### 2. GOODWILL AND INTANGIBLE ASSETS

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Intangible Assets." The statement requires companies to stop amortizing goodwill and certain intangible assets with indefinite useful lives. Instead, goodwill and



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intangible assets with indefinite useful lives will be tested for impairment upon adoption of the statement and annually thereafter. The Company will perform its annual impairment review for intangible assets during the fourth quarter of each year, commencing with the fourth quarter of 2002. As a result of adoption, the Company no longer records amortization expense related to goodwill or intangible assets with indefinite useful lives.

The Company adopted SFAS No. 142, effective January 1, 2002, which resulted in a one-time, non-cash charge of \$1.5 million, or \$956,000 net of tax benefit of \$514,000, to write-off the value of its goodwill. The goodwill was recorded under the purchase method of accounting for the purchases of Pro-Motion Agency, Inc. and CART Licensed Products, LP, on April 10, 1998 and January 1, 1999, respectively. Such charge is non-recurring in nature and is reflected as a cumulative effect of an accounting change in the accompanying consolidated statements of operations. Previous to the adoption of SFAS No. 142, the Company had accounted for its goodwill and intangible assets in accordance with the accounting standards existing at the time, and the Company's analyses did not result in recognition of any impairment loss prior to the adoption of SFAS No. 142.

Under SFAS No. 142, goodwill impairment is deemed to exist if the carrying value of a reporting unit exceeds its estimated fair value. The Company's reporting units are generally consistent with the operating segments underlying the segments identified in Note 5 - Segment Reporting. In calculating the impairment charge, the fair values of the reporting units were estimated using a discounted cash flow methodology.

A reconciliation of net income (loss) and earnings per share, adjusted to exclude amortization expense, net of tax, for the period prior to adoption and the cumulative effect of accounting change recognized in the current period, is as follows:

	Three Months Ended	
	September 30, 2002	September 30, 2001
Net income (loss)	\$ (8,310)	\$ (1,710)
Add back: Goodwill amortization, net of tax	-	7
Add back: Trademark amortization, net of tax	-	4
Cumulative effect of accounting change, net of tax	-	-
Adjusted net income	\$ (8,310)	\$ (1,699)
 Basic:		
Net income (loss) per share	\$ (0.56)	\$ (0.11)
Amortization net of tax	-	-
Cumulative effect of accounting change, net of tax	-	-
Adjusted income (loss) per share	\$ (0.56)	\$ (0.11)
 Diluted:		
Net income (loss) per share	\$ (0.56)	\$ (0.11)

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Amortization net of tax	-	-
Cumulative effect of accounting change, net of tax	-	-
Adjusted income (loss) per share	\$ (0.56)	\$ (0.11)

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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
SEPTEMBER 30, 2002				
Letters of credit	\$ 4,692	\$ 4,692	\$ --	\$ --
Corporate bonds	6,086	6,094	8	--
U.S. agencies securities	76,063	76,990	927	--
Total short-term investments	\$86,841	\$87,776	\$ 935	\$--
DECEMBER 31, 2001				
Letters of credit	\$ 8,167	\$ 8,167	\$ --	\$ --
Corporate bonds	507	511	4	--
U.S. agencies securities	77,951	78,943	992	--
Total short-term investments	\$86,625	\$87,621	\$ 996	\$ --

Proceeds from sales of investments for the nine months ended September 30, 2002 were approximately \$120.0 million. Proceeds from sales of investments were approximately \$60.4 million for the nine months ended September 30, 2001.

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

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at September 30, 2002 and December 31, 2001:

(IN THOUSANDS)	
SEPTEMBER 30,	DECEMBER 31,
2002	2001

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	-----	-----	-----
Engines	\$ --	\$ 2,456	Disposed
Equipment	6,262	4,890	5-20
Furniture and fixtures	412	413	10
Vehicles	4,065	3,553	5-7
Other	183	215	5 (except lea
	-----	-----	
Total	10,922	11,527	
Less accumulated depreciation	(5,206)	(6,695)	
	-----	-----	
Property and equipment (net)	\$ 5,716	\$ 4,832	
	=====	=====	

5. SEGMENT REPORTING

The Company has one reportable segment, racing operations.

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

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.

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	THREE MONTHS ENDED SEPTEMBER 30,	
(\$ in thousands)	RACING OPERATIONS	OTHER*
-----	-----	-----
2002		
Revenues	\$ 18,495	\$ 42
Interest income (net)	879	3
Depreciation and amortization	338	19
Segment loss before income taxes	(12,771)	(12)
2001		
Revenues	\$ 29,468	\$ 91
Interest income (net)	1,756	5
Depreciation and amortization	322	24
Segment income before income taxes	(2,616)	(62)

	NINE MONTHS ENDED SEPTEMBER 30,	
(\$ in thousands)	RACING OPERATIONS	OTHER*
-----	-----	-----

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2002		
Revenues	\$ 43,311	\$ 122
Interest income (net)	3,073	10
Depreciation and amortization	989	56
Segment loss before income taxes	(19,307)	(36)
2001		
Revenues	\$ 55,511	\$ 272
Interest income (net)	5,685	15
Depreciation and amortization	1,078	73
Segment income before income taxes	3,587	(18)

\*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:

(\$ in thousands) -----	SEPTEMBER 30, 2002 -----	DECEMBER 31, 2001 -----
Total assets for reportable segment	\$ 133,774	\$ 131,901
Other assets	280	1,040
	-----	-----
Total consolidated assets	\$ 134,054 =====	\$ 132,941 =====

As a result of the Company's adoption of SFAS No. 142, the Racing Operations segment recorded a non-cash charge of \$632,000, or \$411,000 net of tax benefit of \$221,000, and the Other segment recorded a non-cash charge of \$838,000, or \$545,000 net of tax benefit of \$293,000, as a cumulative effect of accounting change for the write-off of goodwill effective in the first quarter of 2002.

### 6. COMMITMENTS AND CONTINGENCIES

LITIGATION. On September 8, 2000, a complaint for damages was filed against the Company in the Superior Court of the State of California, County of Monterey. This lawsuit was filed 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 seeks damages in an unspecified amount for negligence and wrongful death. On November 5, 2001, a release signed by Mr. Rodriguez was upheld by the Court and the causes of action for negligence were dismissed based on the defendants' motion for summary judgment. The remaining count in the lawsuit is for willful and/or reckless conduct and the case is currently in the discovery phase. The Company intends to vigorously defend itself in this lawsuit and does not believe that it is liable for the incident. The Company requires

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each promoter to indemnify us 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 us as a named insured. The Company also maintains liability insurance to cover racing incidents. Management does not believe that the outcome of this lawsuit will have a material adverse affect on our financial position or future results of operations.

On October 30, 2000, a complaint for damages was filed against the Company in the Superior Court of the State of California, County of San Bernardino. This lawsuit was filed 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 sought 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. On a motion for Summary Judgment, the complaint was dismissed on all counts on October 16, 2002.

On November 8, 2001, two former team owners, DellaPenna Motorsports and 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 and does not believe the lawsuit has merit. The suit is currently in the discovery phase. 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.

On March 26, 2002, the Company filed a complaint against Joseph F. Heitzler, a former director and former chairman, chief executive officer and president of the Company in U.S. District Court, Eastern District of Michigan, Southern Division. The complaint alleges that Mr. Heitzler breached his employment contract, breached his fiduciary duties and intentionally or recklessly omitted to disclose information to the Company in order to induce the continuation of Mr. Heitzler's employment agreement. The suit seeks damages of an unspecified amount. This lawsuit has been removed to California. On March 28, 2002, Mr. Heitzler filed a complaint against the Company in the Superior Court of the State of California, County of Los Angeles. The suit seeks compensatory, exemplary and punitive damages in excess of \$2.0 million for breach of contract, fraud, negligent misrepresentation, breach of covenant of good faith and fair dealing and declaratory relief. An amended complaint adding a count for tortious breach of contract in violation of public policy was filed on April 9, 2002. The Company intends to vigorously defend itself in this lawsuit. 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 July 9, 2002 a Demand for Arbitration was filed against the Company with the American Arbitration Association in Indianapolis, Indiana by Engine Developments Ltd. The Demand alleges that the Company breached an agreement to purchase engines and seeks unspecified damages. The claim is currently in the discovery stage. Management does not believe that an agreement was ever entered into and intends to vigorously defend itself. Management does not believe that the outcome of this Demand for Arbitration will have a material adverse affect on the Company's financial position or future results of operations.

The Company is involved in other litigation not specifically identified above and does not believe the outcome of any of this litigation will have a material adverse affect on its financial position or future results of operation.

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

OVERVIEW

Beginning in 2002, we are transitioning our company from a sanctioning body to a marketing services company. Historically, we have derived our revenues from three primary sources: sanction fees paid by track promoters, corporate sponsorship fees and television revenues. Starting this year, we are introducing new revenue sources to our business model.

At certain tracks, we are promoting our own events, and at others, we are partnering with experienced promoters. We are using the talent and experience of our key personnel to set the standard for promotion of CART sanctioned events, and we will participate in the potential net income from such successful events rather than receiving fixed sanction fees as we have done in the past. For the events where we are sharing revenues, we will receive lower up-front sanction fees, but our agreements provide for us to receive a majority of any profits until the original sanction fee is received, with profit sharing thereafter. We are also taking on the risk of potential losses with these revenue sharing events.

We have also entered into new television agreements for 2002 with Speed Channel, Fox and CBS. These arrangements significantly increase the number of high quality CART programming hours that are available to our fans domestically. We had seven races broadcast on CBS and one race on FOX, with the balance airing on Speed Channel. We are buying the air-time and paying for production for the CBS and FOX races and receive the advertising time which we, along with our agents, are responsible for selling. This new domestic television arrangement is different than our past television arrangement where we received a rights fee.

The significant changes to our business model affect the comparability of our financial results.

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.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

One of our most critical accounting policies is revenue recognition. We recognize our revenues as they are earned, but the determination of when they are earned depends on the source of the revenue. Our assumptions for each revenue source are outlined below.

**SANCTION FEE REVENUE.** Generally, sanction fees are paid in advance of the race and are recorded as deferred revenue. Revenue from sanction fees is not recognized until the event is completed. Beginning in 2002, we have entered into agreements with certain promoters where all or a portion of the contracted sanction fee has been reduced in exchange for a percentage of the profits from the event. The sanction fee received and our share of any profits from these events will be recognized as sanction fee revenue when the event is completed.

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SPONSORSHIP REVENUE. Generally, sponsorship agreements call for quarterly payments, and each payment is recorded as deferred revenue when paid. Revenue is recorded ratably over the life of the sponsorship agreement.

ENGINE LEASE, REBUILDS AND WHEEL SALES. Engine lease revenue, relating to our discontinued Indy Lights series, was recognized ratably over the period covered by the agreement. Engine rebuilds and wheel sales were recognized when the product was delivered to the customer. This revenue ceased at the end of the 2001 Indy Lights season.

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TELEVISION REVENUE. Beginning in 2002, we sell the advertising for the eight shows that were aired on the CBS and Fox networks. Advertising revenue will be recognized, based on ads sold, for these events when the event is completed and the advertising is aired. In addition, we receive international rights fees for complete coverage shows and highlight shows for all of our races broadcast internationally. Television revenue as it relates to rights fees is recognized ratably over the race schedule.

RACE PROMOTION REVENUE. Payments for commercial rights associated with a self-promoted event that are received prior to the event will be recorded as deferred revenue. Revenue will be recorded when the event is completed. Expenses related to these events will be recorded in race promotion expenses.

OTHER REVENUES. Other revenues include membership and entry fees, contingency awards money, commissions on part sales and royalty income. Membership and entry fees and contingency award money are recognized ratably over the race schedule. Commissions from part sales are recognized when the item is delivered to the customer. Royalty income is recognized as the related product sales occur or on a monthly basis based on a minimum guarantee.

### Impairment

We adopted FASB Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Intangible Assets," effective January 1, 2002. The statement requires companies to stop amortizing goodwill and certain intangible assets with an indefinite useful life. The statement also requires that we test our goodwill and intangible assets for impairment upon adoption of the statement and periodically thereafter. Our goodwill was associated with our acquisitions of Pro-Motion Agency, Inc. and CART Licensed Products, LP, on April 10, 1998 and January 1, 1999, respectively. Upon adoption of the statement, we recorded a one-time, non-cash charge of \$1.5 million, or \$956,000 net of tax benefit of \$514,000, to write-off the value of the goodwill. The write-off of goodwill results from the use of discounted cash flows in assessment of fair value for each reporting unit as required by SFAS No. 142. Under SFAS No. 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value.

During 2001, we determined that the goodwill and certain long-lived assets associated with American Racing Series, Inc. (ARS) were impaired due to our strategic decision to discontinue the operations of ARS at the conclusion of the 2001 season. As a result, we recorded an impairment charge for the goodwill and long-lived assets.

### Litigation

We are involved in litigation as a part of our normal course of

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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 Forms 10-Q. Management intends to vigorously defend against any litigation. When a complaint is filed by or against the Company that represents a material claim, we disclose the proceeding in our financial statements. When a claim against us is probable and estimable, we record the expense. When we are the party filing the claim, we do not record income until the claim for damages is received.

### RESULTS OF OPERATIONS

Three Months Ended September 30, 2002 Compared to Three Months Ended September 30, 2001

REVENUES. Total revenues for the quarter ended September 30, 2002 were \$18.5 million, compared to \$29.6 million during the same period in the prior year. This decrease was due to a decrease in sanction fees; sponsorship revenue; television revenue; engine leases; rebuilds and wheel sales; and other revenue as described below.

Sanction fees for the quarter ended September 30, 2002 were \$12.6 million, a decrease of \$9.2 million, or 42%, from the same period in the prior year. This decrease was primarily the result of amended

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agreements with promoters pursuant to which sanction fees were reduced in exchange for a percentage of the profits from the events as discussed above. The decrease was also attributable to running eight races in the third quarter of 2002 compared to nine races in the same period in the prior year.

Sponsorship revenue for the quarter ended September 30, 2002 was \$2.9 million, a decrease of \$769,000, or 21%, from the same period in the prior year. This decrease was primarily attributable to the loss of sponsorship income from the Indy Lights series which we discontinued at the end of the 2001 race season, as well as a reduction in sponsorship fees from one of our sponsors, pursuant to a renegotiation clause in the applicable sponsorship contract.

Television revenue for the quarter ended September 30, 2002 was \$2.0 million, a decrease of \$398,000, or 17%, from the same period in the prior year. The decrease was due to a change in our television agreements from the previous year. In 2001, we received a guaranteed rights fee for both our domestic and international television rights. In 2002, we purchase the air-time, and we receive the advertising revenue for our races broadcast on network television. In the third quarter of 2002, we had three races broadcast on network television. The corresponding expenses are reported below in television expenses. Included in television revenue are the rights fees we receive for the international broadcasts of all of our races.

There were no engine leases, rebuilds and wheel sales for the three months ended September 30, 2002, a decrease of \$325,000 from the same period in the prior year. This decrease was due to the discontinuance of the Indy Lights Championship.

Other revenue for the quarter ended September 30, 2002 was \$1.1 million, which was a decrease of \$341,000, or 24%, from the same period in the prior year. Other revenue includes membership and entry fees, contingency awards money, royalty income, commission on parts sales and other miscellaneous revenue. The decrease was primarily due to decreased entry and membership fees



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in CART due to fewer entrants and holding one less race, a decrease in royalties and merchandise sales from licensed merchandise and the loss of revenues as a result of the discontinuance of the Indy Lights Championship. The decrease was partially offset by increased revenue from our Toyota Atlantics series due to an increase in entry fees and from increased commissions on chassis sales when compared with the previous year.

EXPENSES. Total expenses for the quarter ended September 30, 2002 were \$32.2 million, a decrease of \$1.8 million, or 5%, from the same period in the prior year. This decrease was due to a decrease in cost of engine rebuilds and wheel sales, administrative and indirect expenses, litigation expense and asset impairment and strategic charges. The decrease was partially offset by an increase in race distributions, race expenses, television expenses, race promotion expense and depreciation and amortization as described below.

Race distributions for the quarter ended September 30, 2002 were \$8.4 million, an increase of \$28,000 from the same period in the prior year. The increase was due to a \$10,000 per race participation payment that we make to all of our teams, beginning in March 2002. In addition, we have provided \$850,000 in assistance to certain teams in order to ensure their necessary participation in our series. The increase was also due to an increase in the purse and year-end points fund for the Toyota Atlantics Series. The increase was partially offset by travel payments made to teams in 2001 for European travel that were not made in 2002 and a decrease in CART and Indy Lights purse payments due to holding one less CART race in 2002 and discontinuing the Indy Lights Championship at the conclusion of the 2001 race season; we held four Indy Lights races in the quarter ended September 30, 2001.

Race expenses for the quarter ended September 30, 2002 were \$4.1 million, an increase of \$883,000, or 27%, from the same period in the prior year. The increase was primarily due to freight expenses related to the race in Rockingham, England. In 2001, the freight expenses related to transporting the cars and equipment to Europe were paid by the promoters. In an amendment to the original agreement for the Rockingham race, CART agreed to pay these freight charges. The increase is also due to increased salaries, fees and travel expenses in regards to the competition and safety departments. The increase was partially offset by the discontinuance of the Indy Lights Championship.

Race promotion expenses for the three months ended September 30, 2002, were \$5.5 million. There were no race promotion expenses for the same period in the prior year. We entered into an

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agreement with Raceworks, LLC to act as the co-promoter of the Miami event. We funded substantially all of the costs associated with the race in Miami and incurred \$5.5 million of race promotion expenses. The race which took place on October 6, 2002 has been included in our results for the period ended September 30, 2002. We have included expenses estimated to be in excess of anticipated revenues from the race. Since the race did not occur until after September 30, 2002, the actual results of the Miami event could differ from these estimates and will be reported in the fourth quarter.

There was no cost of engine rebuilds and wheel sales for the three months ended September 30, 2002, a decrease of \$128,000 from the same period in the prior year. This decrease is due to the discontinuance of the Indy Lights Championship which was effective with the conclusion of the 2001 race season.

Television expense was \$4.9 million with no corresponding expense in the prior period. The increase was due to a change in our television agreements

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from the previous year. In 2001, we received a guaranteed rights fee for both our domestic and international television rights with no corresponding expense. In 2002, we buy the air-time and pay for production expenses for our network races. In the third quarter of 2002, we had three races broadcast on network television. In addition, we incur incremental expenses to provide an international feed for all of our races.

Administrative and indirect expenses for the quarter ended September 30, 2002 were \$9.0 million, a decrease of \$837,000, or 9%, from the same period in the prior year. This decrease was primarily attributable to a decrease in charitable contributions, professional fees for strategic planning, TV consulting and employee recruitment and the discontinuance of the Indy Lights Championship, partially offset by an increase in bad debt expense, legal fees, public relations and the advance program. Our new advance program team visits selected race venues prior to the event weekend and invites local media and corporate guests to participate in activities at the track in order to generate excitement in the market prior to the event.

Depreciation and amortization for the quarter ended September 30, 2002 was \$357,000, compared to depreciation and amortization of \$346,000 for the same period in the prior year. We ceased amortizing goodwill as of January 1, 2002 in compliance with the Financial Accounting Standards Board issuance of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

OPERATING LOSS. Operating loss for the quarter ended September 30, 2002 was \$13.7 million, compared to operating loss of \$4.4 million in 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, 2002 was \$882,000 a decrease of \$879,000, or 50%, from the same period in the prior year. This is primarily due to a decrease in interest rates and in cash and short-term investments.

LOSS BEFORE INCOME TAXES. Loss before income taxes for the quarter ended September 30, 2002 was \$12.8 million, compared to loss before income taxes of \$2.7 million for the same period in the prior year due to the factors described above.

INCOME TAX BENEFIT. Income tax benefit for the quarter ended September 30, 2002 was \$4.5 million, compared to an income tax benefit of \$968,000 for the corresponding period in the prior year. The effective tax rates were 35.0% and 36.1% for the three months ended September 30, 2002 and 2001, respectively.

NET LOSS. Net loss for the second quarter ended September 30, 2002 was \$8.3 million compared to net loss of \$1.7 million for the same period in the prior year due to the factors described above.

Nine Months Ended September 30, 2002 Compared to Nine Months Ended September 30, 2001

REVENUES. Total revenues for the nine months ended September 30, 2002 were \$43.4 million, a decrease of \$12.4 million, or 22%, from the same period in the prior year. This decrease was due to lower sanction fees; sponsorship revenue; engine leases; rebuilds and wheel sales; and other revenue, partially offset by an increase in television and race promotion revenue as described below.

Sanction fees for the nine months ended September 30, 2002 were \$27.1 million, a decrease of \$10.6 million, or 28%, from the same period in the prior year. This decrease was primarily the result of

amended agreements with promoters pursuant to which sanction fees were reduced in exchange for a percentage of the profits from the events as discussed above. The decrease was also attributable to running fourteen races that paid sanction fees in 2002, compared to sixteen races in the same period of the prior year; one of the races in 2002 was a self-promoted event, and the revenues from that event are reported in race promotion revenue.

Sponsorship revenue for the nine months ended September 30, 2002 was \$8.0 million, a decrease of \$2.1 million, or 21%, from the same period in the prior year. This decrease was primarily attributable to the loss of sponsorship income from the Indy Lights series as well as a reduction in sponsorship fees from one of our sponsors, pursuant to a renegotiation clause in the applicable sponsorship contract.

Television revenue for the nine months ended September 30, 2002 was \$4.2 million, an increase of \$26,000 from the same period in the prior year. Our television agreements have changed from the previous year. In 2001, we received a guaranteed rights fee for both our domestic and international television rights. In 2002, we purchase the air-time, and we receive the advertising revenue for our races broadcast on network television. In the nine months ended September 30, 2002, we had three races broadcast on network television. The corresponding expenses are reported below in television expenses. Included in television revenue are the rights fees we receive for the international broadcasts of all of our races.

Race promotion revenue for the nine months ended September 30, 2002 was \$1.4 million. There was no race promotion revenue for the same period in the prior year. Race promotion revenue for the nine months ended September 30, 2002 relates to our self-promoted race, the CART Grand Prix of Chicago, and includes revenues from sponsorships, ticket sales, hospitality sales, and all other revenue generated by the event.

There were no engine leases, rebuilds and wheel sales for the nine months ended September 30, 2002, a decrease of \$908,000 from the same period in the prior year. This decrease was due to the discontinuance of the Indy Lights Championship.

Other revenue for the nine months ended September 30, 2002 was \$2.7 million, a decrease of \$263,000, or 9%, from the same period in the prior year. Other revenue includes membership and entry fees, contingency awards money, royalty income, commission on parts sales and other miscellaneous revenue. The decrease was primarily due to decreased revenue from CART's membership fees due to fewer entrants, a decrease in royalty and merchandise sales and the loss of revenues as a result of the discontinuance of the Indy Lights Championship. The decrease was partially offset by increased revenues from the Toyota Atlantics series due to increased entry fees and commissions on chassis sales and having two additional races in the nine months ended September 30, 2002 when compared to the same period in 2001.

EXPENSES. Total expenses for the nine months ended September 30, 2002 were \$65.9 million, an increase of \$8.0 million, or 14%, from the same period in the prior year. This increase was due to an increase in race distributions, race expenses, race promotion, television expense and relocation expense, partially offset by a decrease in cost of engine rebuilds and wheel sales, administrative and indirect expenses, litigation expenses, asset impairment and strategic charges and depreciation and amortization as described below.

Race distributions for the nine months ended September 30, 2002 were

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\$15.8 million, an increase of \$2.0 million, or 15%, from the same period in the prior year. The increase was primarily due to a \$10,000 per race participation payment that we make to all of our teams. In addition, we have provided \$1.3 million in assistance to certain teams in order to ensure their necessary participation in our series. The increase was also due to an increase in the purse and year-end points fund for the Toyota Atlantics Series. Toyota Atlantics held twelve races in the nine months ended September 30, 2002 compared to ten races being held in the same period in the prior year. The increase was partially offset by travel payments made to teams in 2001 for European travel that were not made in 2002 and a decrease in CART and Indy Lights purse payments due to holding one less CART race in 2002 and discontinuing the Indy Lights Championship at the conclusion of the 2001 race season; we held nine Indy Lights races in the nine months ended September 30, 2001.

Race expenses for the nine months ended September 30, 2002 were \$8.4 million, an increase of \$633,000, or 8%, from the same period in the prior year. This increase is primarily due to freight expenses

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related to the race in Rockingham, England. In 2001, the freight expenses related to transporting the cars and equipment to Europe were paid by the promoters. In an amendment to the original agreement for the Rockingham race, CART agreed to pay these freight charges. The increase is also due to increased salaries, fees and travel expenses in regards to the competition and safety departments. The increase was partially offset by the discontinuance of the Indy Lights Championship.

Race promotion expenses for the nine months ended September 30, 2002, were \$8.9 million. There were no race promotion expenses for the same period in the prior year. Race promotion expenses for the nine month period included \$3.5 million of expenses incurred in connection with our self-promoted race, the CART Grand Prix of Chicago, and include all expenses associated with promoting that race. We entered into an agreement with Raceworks, LLC to act as the co-promoter of the Miami event. We funded substantially all of the costs associated with the race in Miami and incurred \$5.5 million of race promotion expenses. The race which took place on October 6, 2002 has been included in our results for the period ended September 30, 2002. We have included expenses estimated to be in excess of anticipated revenues from the race. Since the race did not occur until after September 30, 2002, the actual results of the Miami event could differ from these estimates and will be reported in the fourth quarter.

There was no cost of engine rebuilds and wheel sales for the nine months ended September 30, 2002, a decrease of \$343,000 from the same period in the prior year. This decrease is due to the discontinuance of the Indy Lights Championship.

Television expense for the nine months ended September 30, 2002 was \$9.6 million with no corresponding expense in the prior period. The increase was due to a change in our television agreements from the previous year. In 2001, we received a guaranteed rights fee for both our domestic and international television rights with no corresponding expense. In 2002, we buy the air-time and pay for production expenses for our network races. For the nine months ended September 30, 2002, we had seven races broadcast on network television. In addition, we incur incremental expenses to provide an international feed for all of our races.

Administrative and indirect expenses for the nine months ended September 30, 2002 were \$20.8 million, a decrease of \$2.0 million, or 9%, from the same period in the prior year. This decrease was primarily attributable to a

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decrease in charitable contributions, professional fees for strategic planning, TV consulting and employee recruitment and the discontinuance of the Indy Lights Championship, partially offset by an increase in bad debt expense, legal fees, public relations and the advance program. Our new advance program team visits selected race venues prior to the event weekend and invites local media and corporate guests to participate in activities at the track in order to generate excitement in the market prior to the event.

Relocation expenses for the nine months ended September 30, 2002 were \$1.3 million with no corresponding expense in the same period in the prior year. This expense relates to our headquarters moving from Troy, Michigan to Indianapolis, Indiana.

Depreciation and amortization for the nine months ended September 30, 2002 were \$1.0 million, compared to depreciation and amortization of \$1.2 million for the same period in the prior year. We ceased amortizing goodwill as of January 1, 2002 in compliance with the Financial Accounting Standards Board issuance of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

OPERATING LOSS. Operating loss for the nine months ended September 30, 2002 was \$22.4 million, compared to operating loss of \$2.1 million for the same period in the prior year due to the factors described above.

INTEREST INCOME-NET. Interest income-net for the nine months ended September 30, 2002 was \$3.1 million, a decrease of \$2.6 million or 46%, for the same period in the prior year. This is primarily due to a decrease in interest rates and in cash and short-term investments.

LOSS BEFORE INCOME TAXES. Loss before income taxes for the nine months ended September 30, 2002 was \$19.3 million, compared to income before income taxes of \$3.6 million for the same period in the prior year due to the factors described above.

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INCOME TAX BENEFIT. Income tax benefit for the nine months ended September 30, 2002 was \$6.8 million, compared to an income tax expense of \$1.2 million for the same period in the prior year. The effective tax rate was 35.0% for the nine months ended September 30, 2002 and 2001.

LOSS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE. Loss before cumulative effect of accounting change for the nine months ended September 30, 2002 was \$12.6 million compared to net income before cumulative effect of accounting change of \$2.3 million for the same period in the prior year.

CUMULATIVE EFFECT OF ACCOUNTING CHANGE. Cumulative effect of accounting change for the nine months ended September 30, 2002 was \$1.5 million, or \$956,000 net of tax benefit of \$514,000. There was no corresponding amount in the same period in the prior year. The amount relates to our implementation of Statement of Financial Account Standard No. 142 pursuant to which we wrote off our impaired goodwill.

NET LOSS. Net loss for the nine months ended September 30, 2002 was \$13.5 million compared to net income of \$2.3 million for the same period in the prior year due to the factors described above.

SEASONALITY AND QUARTERLY RESULTS

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A substantial portion of our total revenues and expenses 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. In addition, the mix between the type of races (street course, superspeedway, etc.), the sanction fees attributed to those races and whether the races are aired on network television or Speed Channel will affect quarterly results. During the third quarter ended September 30, 2002, we held eight races: Toronto, Canada, Cleveland, Ohio, Vancouver, Canada, Lexington, Ohio, Elkhart Lake, Wisconsin, Montreal, Canada, Denver, Colorado and Rockingham, England.

### LIQUIDITY AND CAPITAL RESOURCES

We have relied on our cash flow from operations to finance working capital, investments and capital expenditures during the past year. We anticipate that in 2003, we will use proceeds from our initial public offering to fund certain of the expenditures that are planned for the year 2003 and discussed below. We believe that existing cash, cash flow from operations and available bank borrowings will be sufficient for capital expenditures and other cash needs.

We have a \$1.5 million revolving line of credit with a commercial bank. As of September 30, 2002, 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, 2002 was \$15.2 million, a net decrease of \$12.6 million from December 31, 2001. This decrease was primarily the result of net cash used in operating activities of \$5.0 million and in investing activities of \$7.6 million.

We anticipate capital expenditures of approximately \$2.0 million to \$3.0 million during the next twelve months. In October 2002, the Company paid \$4.0 million for the purchase of engines for use in our series in 2003 and 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 Oct 31, 2010. The total amount due through the life of the lease is \$2.6 million.

We have implemented a stock repurchase program that was authorized by our Board of Directors in April 2001. The program allows us to repurchase up to 2,500,000 shares of our outstanding stock, of which 1,054,000 shares have been repurchased for an aggregate of \$15.5 million through December 31, 2001. We did not repurchase any shares in the nine months ended September 30, 2002. 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.

Beginning in 2002, we self-promoted the race in Chicago and funded the race in Miami. In addition, we entered into one new and modified four existing agreements with promoters to include revenue sharing arrangements with promoters at their events. The financial success of each of the events, for which we promote or share in revenues, is dependent on the sale of tickets, sponsorship, hospitality, signage and other commercial rights associated with the events. Our increased focus on these activities means that our revenues related to our sanction fee and race promotion income will be subject to a number of factors, including consumer and corporate spending and the overall economic conditions affecting advertising and promotion in the motorsports and entertainment

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business.

The event in Chicago in 2002 resulted in a loss of approximately \$2.1 million. The race which took place in Miami on October 6, 2002 has been included in our results for the period ended September 30, 2002. Since we funded substantially all of the expenses associated with the race in Miami, we have included such expenses anticipated to be in excess of revenues expected to be received from the race. This information is based in part upon estimates and assumptions since the event occurred after September 30, 2002. Actual results could differ from those estimates and will be reported in the fourth quarter. We have also guaranteed a \$2 million loan from the Miami Sports Entertainment Authority to Raceworks, LLC, our Miami race co-promoter. The loan is a five (5) year agreement, payable in \$200,000 installments per year, beginning in October 2002, with a balloon payment in the final year. The initial installment will be reported in the fourth quarter.

With the four tracks where we modified our sanctioning fees to share in the net revenue for the events, we received net sanctioning fees of \$4.6 million, which represented a 35% reduction in sanctioning fees compared to 2001 fees for the same events. We anticipate that in 2003 we will again self-promote the race in Chicago and in Miami. We also anticipate that we will have revenue sharing arrangements with six promoters in 2003. As a result, the sanctioning fees that we anticipate receiving in 2003, will be dependent in a substantial part upon the success of the marketing of each event and, therefore, we cannot predict our sanctioning fee revenues.

In 2002, our new television contracts, which run through 2004, require us to purchase airtime and produce the shows at our expense for the races we broadcast on CBS and Fox. We retain advertising revenues for these races. Our fixed costs for 2002 are estimated to be approximately \$8.6 million, of which \$7.5 million was incurred through September 30, 2002. These television expenses were offset by our sales of television advertising in the amount of \$1.7 million through September 30, 2002. We are unable to predict the sales of our television advertising for the remainder of the year 2002 or for 2003. The amount of advertising will be based upon a number of economic factors over which we have no control. The overall state of the economy, the popularity of our sport and other factors make it more uncertain as to the ultimate profitability or loss related to our television package.

In October 2002 we provided a letter of credit in the amount of \$1.7 million in regards to the production of conversion kits for race car chassis for the 2003 season. The letter of credit guarantees that at least 20 of the kits will be purchased by our race teams. As the kits are purchased the letter of credit will be reduced accordingly. If 20 kits are not purchased by our teams we will purchase the remaining kits and continue to sell the kits to teams as they are needed.

In August 2002, the Company announced an entry support program to retain and attract teams for the 2003 season and beyond. This program will provide up to \$850,000 in cash payments to teams for each car entered in the 2003 Championship, up to a maximum of twenty (20) cars. These payments are in addition to prize money and other non-monetary benefits that accrue to teams participating in the Championship Series. In return for receipt of these funds, each team will allocate to CART advertising space on its race cars and other equipment, which CART will use in packaging advertising that it will market to potential sponsors. The advertising packages offered to sponsors would include not only advertising on racecars, but also television, at-track advertising and additional media opportunities. We are unable to predict how successful our efforts will be in marketing these packages.

The Company announced in October 2002, a commitment to invest up to an additional \$30 million to ensure that there is adequate participation by race

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teams in the 2003 season. Although the allocation of these funds has not been finalized, we anticipate that substantially all of the funds will be used to fund a portion of several teams' overall budget for 2003. We believe that it is necessary to provide this additional funding to ensure that there are eighteen (18) to twenty (20) competitive racecars in the field

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for the 2003 season. Without this additional funding, it is unlikely that there will be eighteen (18) teams, which would result in defaults under certain of the Company's agreements with promoters and television. This could result in the Company not being able to commence or complete the 2003 race season.

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

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 the Company's financial position or future results of operations.

### RELATED PARTIES

We have entered into, and we will continue to enter into, transactions with entities that are affiliated with our directors and/or 5% stockholders who are owners of our race teams. Race teams that participate in the CART Championship receive purse distributions on a per race basis and from the year end point fund, which amounts have been paid based solely upon their performance in specific races. All of these payments are made to our race teams regardless of the affiliation with our directors or significant stockholders. During 2002, we also paid a participation payment to our race teams, including those affiliated with directors (or directors who have resigned during the year) and/or 5% stockholders. The following table provides information with respect to payments made during the nine months ended September 30, 2002 by us to race teams that are affiliated with directors and/or significant stockholders of CART:

RACE TEAM/AFFILIATED PERSON	PURSE DISTRIBUTIONS
Newman/Haas Racing/Carl A. Haas	\$ 1,282,500
Team Green/Barry E. Green	1,021,750
Chip Ganassi Racing Teams, Inc./Chip Ganassi	1,201,750
Forsythe Racing, Inc./Gerald R. Forsythe	859,000
Patrick Racing, Inc./U.E. Patrick	246,500
Derrick Walker Racing, Inc./Derrick Walker	258,250

Carl A. Haas, a director of the Company and a race team owner, is a principal owner of Carl Haas Racing Teams, Ltd. and Texaco Houston Grand Prix L.L.C. ("HGP"), each of which have entered into Promoter Agreements with respect



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to CART Championship races at the Wisconsin State Park Speedway in West Allis, Wisconsin and at a temporary road course in Houston, Texas. In the second quarter of 2002 the Promoter Agreement for the West Allis race was renewed for the 2002 event with the promoter having the option to extend for the 2003 and 2004 years. The sanction fees payable to CART under this agreement is similar to those paid by independent race promoters. Pursuant to the Promoter Agreement, entities affiliated with Mr. Haas have paid sanction fees to CART of \$1.7 million. If the option for the Milwaukee race is exercised, sanction fees paid for 2003 and 2004 will be \$1.7 million for each year. In addition, we have incurred a total of \$100,000 in sales costs and \$59,000 in marketing expenses in relation to our race at Wisconsin State Park Speedway during 2002. The promoter agreement in regards to the Houston, Texas event provided for races to be held starting in 1998 through 2003. The Houston, Texas race will not be held in 2002 or 2003 due to construction on the temporary circuit in downtown Houston. Therefore, the promoter agreement has been terminated by mutual agreement. Carl Haas Racing Teams, Ltd will pay a \$500,000 termination fee to CART and CART has received an option to acquire certain assets of HGP, used in operating the Houston event, for \$750,000; this option must be exercised by December 15, 2002.

Gerald R. Forsythe, a race team owner and 24.9% stockholder, is a principal owner of the entities which entered into Promoter Agreements with respect to CART Championship races in Monterrey, Mexico and Mexico City, Mexico. Pursuant to the terms thereof, a CART Championship race will be held in Monterrey through 2005 and Mexico City through 2006. These entities affiliated with Mr. Forsythe

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have paid or will pay sanction fees to CART in the aggregate amount of \$6.7 million for 2002, \$6.8 million for 2003, \$6.9 million for 2004, \$7.0 million for 2005 and \$4.0 million for 2006.

In addition, we have paid or anticipate that we will pay a total of \$200,000 in sales costs and \$190,000 in marketing expenses to these entities during 2002.

In order to change the date of the Mexico City race as requested by Mr. Forsythe's affiliated entity, we have agreed to pay another promoter \$250,000. Mr. Forsythe's affiliated entity will reimburse us for \$125,000 of that expense.

Mr. Forsythe is also a principal owner of the entity that holds our Mexican television rights through 2004. In return for these rights, we will receive a minimum guarantee of \$300,000, \$325,000 and \$350,000 for each of the three years ending 2002, 2003 and 2004, respectively. In addition, we will receive 70% of the net profits until we reach \$500,000, \$550,000 and \$600,000 for each of the three years ending 2002, 2003 and 2004, respectively.

Gerald R. Forsythe is also a principal owner of an entity which entered into a Promoter Agreement with respect to CART Championship races in Rockingham, England. The agreement provided for a race to be held beginning in 2001 through 2006. Following the cancellation of the race scheduled to be run in Germany, officials at Rockingham expressed concern regarding the viability of running a single event in Europe. In order to assure that the Rockingham event could move forward in 2002, we negotiated an amendment to the Promoter Agreement which reduced the sanction fee to \$2.8 million and we assumed certain costs, including freight and transportation, in the amount of \$900,000. In addition, the terms of the future years of the agreement, 2003-2006, are subject to renegotiation or may be terminated if an agreement cannot be reached. In addition, we have paid or anticipate that we will pay a total of \$150,000 in sales costs and \$51,000 in marketing expenses to this entity during 2002.

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Floyd R. Ganassi Jr., a former director of the Company and a race team owner, is a principal owner of Chicago Motor Speedway, LLC and has entered into a Promoter Agreement with respect to a CART Championship race at Chicago Motor Speedway in Cicero (Chicago), Illinois. Pursuant to the terms thereof, a Championship race was to be held through 2003. The Chicago Motor Speedway, LLC was to pay sanction fees to CART of \$2.0 million for 2002 and \$2.1 million for 2003. In 2002, the Chicago Motor Speedway, LLC announced the suspension of all race events at Chicago Motor Speedway. We then entered into an agreement with the Chicago Motor Speedway, LLC where we rented the track for \$850,000 in 2002 and promoted the race ourselves.

Mr. Ganassi is also principal owner of Target Chip Ganassi Racing, Inc., which has entered into an agreement by which Target Chip Ganassi Racing Inc. will run a third car for the remainder of the 2002 season. Pursuant to the terms thereof, we will pay Target Chip Ganassi Racing, Inc. \$1.7 million for running the third car, and we will receive the right to sell certain sponsorship space on that car. Through September 30, 2002, we have paid \$1.2 million of this amount.

In addition to the payments described above, CART receives revenues from its race teams, including those affiliated with CART directors and/or 5% stockholders, for entry fees, equipment leases and other payments based solely on participation in CART events and CART's self-promoted event. During the nine months ended September 30, 2002, race teams affiliated with CART directors and/or 5% stockholders made such payments to CART as follows:

Team Green/Barry E. Green	\$ 187,360
Forsythe Racing, Inc./Gerald R. Forsythe	106,636
Chip Ganassi Racing Teams, Inc./Chip Ganassi	94,805
Newman/Haas Racing/Carl A. Haas	142,368
Patrick Racing, Inc./U.E. Patrick	71,500
Derrick Walker Racing, Inc./Derrick Walker	50,050

We believe that all of the transactions which we have entered into with our directors or significant shareholders are comparable to the terms that we have in the past or could in the future enter into with third parties with respect to each of these transactions. In order to avoid conflicts of interest, any of our directors who are affiliated with an entity that is entering into a transaction with us will not vote on any matter related

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to such transaction, and may, in certain circumstances, refrain from participating in any discussions related to such transaction.

### 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 IRL

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- liability for personal injuries
- success of television contracts
- renewal of sanction agreements
- participation by suppliers
- success of self-promoted races and events where we share revenue with the promoters
- current uncertain economic environment and weak advertising market
- impact of engine specifications

### 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 September 30, 2002, our investments consisted of corporate bonds, U.S. Agency issues, letters of credit, and money market funds. The weighted average maturity of our portfolio is 314 days. Because of the relatively short-term nature of our investments, our market risk due to interest rate changes is immaterial.

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CHAMPIONSHIP AUTO RACING TEAMS, INC.

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings

On October 30, 2000, a complaint for damages was filed against the Company in the Superior Court of the State of California, County of San Bernardino. This lawsuit was filed 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 sought 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. On a motion for Summary Judgment, the complaint was dismissed on all counts on October 16, 2002

#### Item 4. Controls and Procedures

(a) Within the 90 days prior to the date of filing of this report, we carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's 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, the Company's Chief Executive Officer and Chief Financial Officer

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concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) There have been no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date we carried out this evaluation.

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

(a) Exhibits.

- 10.27 Amendment to the Sanction Agreement by and between the Company and Rockingham Motor Speedway dated as of August 16, 2002.
- 99.1 Section 906 certification by Christopher R. Pook, Chief Executive Officer
- 99.2 Section 906 certification by Thomas L. Carter, Chief Financial Officer

(b) Reports on Form 8-K.

We were not required to file a form 8-K during the three months ended September 30, 2002.

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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 14, 2002  
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By: /s/ Thomas L. Carter  
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Thomas L. Carter  
Chief Financial Officer

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CERTIFICATIONS  
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I, Christopher R. Pook, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Championship Auto Racing Teams, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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

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

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

Date: November 14, 2002

/s/ Christopher R. Pook

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Christopher R. Pook  
Chief Executive Officer

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CERTIFICATIONS  
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I, Thomas L. Carter, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Championship Auto Racing Teams, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

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

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

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

Date: November 14, 2002

/s/ Thomas L. Carter

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Thomas L. Carter  
Chief Financial Officer