

CHAMPIONSHIP AUTO RACING TEAMS INC
Form 10-Q
August 24, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 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 13, 2004)

This report contains 31 pages.

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

PART I - FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Consolidated Balance Sheets as of March 31, 2004 and
December 31, 2003

Consolidated Statements of Operations for the Three Months
Ended March 31, 2004 and 2003

Consolidated Statement of Stockholders' Equity for the Three Months
Ended March 31, 2004

Consolidated Statements of Cash Flows for the Three Months Ended
March 31, 2004 and 2003

Notes to Consolidated Financial Statements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

ITEM 4. CONTROLS AND PROCEDURES

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURES

CERTIFICATIONS

EXHIBITS

2

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

MARCH 31, 2004

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 4,653
Short-term investments	6,299
Accounts receivable (net of allowance for doubtful accounts of \$ 1,944 and \$2,154 at March 31, 2004 and December 31, 2003	819

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

respectively)	
Notes receivable (net of allowance for uncollectible notes of \$250)	150
Prepaid expenses and other current assets	326
Income tax refundable	699

Total current assets	12,946
PROPERTY AND EQUIPMENT-Net	70
OTHER ASSETS	--

TOTAL ASSETS	\$ 13,016
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Notes payable	\$ 1,700
Accounts payable	761
Accrued liabilities:	
Royalties	--
Payroll	29
Other	360
Liabilities of CART, Inc. subject to compromise (Note 11)	2,142

Total current liabilities	4,992
COMMITMENTS AND CONTINGENCIES (NOTE 7)	--
STOCKHOLDERS' EQUITY:	
Preferred stock, \$.01 par value, 5,000,000 shares authorized, none issued and outstanding	
Common stock \$.01 par value, 50,000,000 shares authorized, 14,718,134 shares issued and outstanding at March 31, 2004 and December 31, 2003	147
Additional paid-in capital	87,765
Accumulated deficit	(79,916)
Accumulated other comprehensive income	28

Total stockholders' equity	8,024

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 13,016
	=====

See accompanying notes to consolidated financial statements

CHAMPIONSHIP AUTO RACING TEAMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(UNAUDITED)
(IN THOUSANDS, EXCEPT LOSS PER SHARE)

THREE MONTHS
ENDED MARCH 31,
2004 2003
----- -----

REVENUES:

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

Sanction fees	\$	--	\$	3,000
Sponsorship revenue		--		1,598
Television revenue		--		189
Engine lease revenue		--		475
Other revenue		54		902
		-----		-----
Total revenues		54		6,164
EXPENSES:				
Race distributions		--		10,993
Race expenses		--		1,567
Race promotion expense		--		333
Television expense		--		1,507
Administrative and indirect expenses		2,170		5,349
Depreciation and amortization		--		820
		-----		-----
Total expenses		2,170		20,569
OPERATING LOSS		(2,116)		(14,405)
Realized gain on sale of investments		8		85
Interest income		33		489
		-----		-----
LOSS BEFORE INCOME TAXES		(2,075)		(13,831)
Income tax benefit		--		(4,842)
		-----		-----
NET LOSS	\$	(2,075)	\$	(8,989)
		=====		=====
NET LOSS PER SHARE:				
BASIC	\$	(0.14)	\$	(0.61)
		=====		=====
DILUTED	\$	(0.14)	\$	(0.61)
		=====		=====
WEIGHTED AVERAGE SHARES OUTSTANDING:				
BASIC		14,718		14,718
		=====		=====
DILUTED		14,718		14,718
		=====		=====

See accompanying notes to consolidated financial statements.

4

CHAMPIONSHIP AUTO RACING TEAMS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2004
(UNAUDITED)
(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL	ACCUMULATED	ACCUMULATED
	SHARES	AMOUNT	PAID-IN	ACCUMULATED	COMPREHENSIVE
	-----	-----	CAPITAL	DEFICIT	INCOME (LOSS)
	-----	-----	-----	-----	-----
BALANCES, JANUARY 1, 2004	14,718	\$ 147	\$ 87,765	\$ (77,841)	\$ 50
Net loss	--	--	--	(2,075)	--

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

Unrealized loss on investments	--	--	--	--	(22)
Comprehensive loss	--	--	--	--	--
BALANCES, MARCH 31, 2004	14,718	\$ 147	\$ 87,765	\$ (79,916)	\$ 28
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

5

CHAMPIONSHIP AUTO RACING TEAMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	2004	2003
	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,075)	\$ (8,989)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	--	820
Net loss from sale of property and equipment	--	77
Deferred income taxes	--	(4,129)
Changes in assets and liabilities that provided by (used in) cash (net of effects from purchase of Raceworks, LLC):		
Accounts receivable	967	(4,412)
Prepaid expenses and other assets	468	(4,071)
Income tax refundable	(5)	(855)
Accounts payable	(2,061)	729
Accrued liabilities	124	917
Deferred revenue	--	7,506
	-----	-----
Net cash used in operating activities	(2,582)	(12,407)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchase of Raceworks, LLC, net of cash acquired	--	(446)
Purchase of investments	--	(6,961)
Proceeds from sale of investments	1,035	31,392
Acquisition of property and equipment	--	(1,734)
Proceeds from sale of property and equipment (net of cash sold)	3,039	61
	-----	-----
Net cash provided by investing activities	4,074	22,312
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(50)	(973)
	-----	-----
Net cash used in financing activities	(50)	(973)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,442	8,932
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,211	6,773
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 4,653	\$ 15,705
	=====	=====

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	\$	--	\$	--
	=====		=====	

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 \$546,000.

See accompanying notes to consolidated financial statements.

6

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

1. BASIS OF PRESENTATION AND CHAPTER 11 FILING

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 March 31, 2004, the results of their operations and cash flows for the three months ended March 31, 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.

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

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

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.

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

7

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, See Note 19).

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 principals 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 July 23, 2004 CART, Inc. filed a Chapter 11 plan (the "Plan") and disclosure statement (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 by the Bankruptcy Court on August 3, 2004. The

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

Plan and Disclosure Statement were sent to CART Inc.'s creditors for voting; the hearing on confirmation of the Plan will occur on September 13, 2004.

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 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 months ended March 31, 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 months

8

ended March 31, 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 in the dilutive loss per share calculation due to their anti-dilutive effect for the three months ended March, 31, 2004 and 2003.

ACCOUNTING PRONOUNCEMENTS. In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entities" and during December 2003 issued Interpretation 46 ("FIN 46R") "Consolidation of Variable Interest Entities, and Interpretation of ARB 51". 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

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

entity's expected residual returns if they occur. FIN46R defers the effective date of FIN46 for certain entities and makes several other changes to FIN46. The Company does not expect the recognition provisions of FIN 46R 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 become effective for the Company in the third quarter 2004. The Company does not expect that the adoption of EITF 03-1 will have a material effect on its results of operations or 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 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 first quarters of 2004 and 2003, there was no compensation expense under APB No. 25.

9

	Three Months Ended March 31, (In Thousands, Except Per Share Data)	
	2004	2003
	-----	-----
NET LOSS		
As reported	\$ (2,075)	\$ (8,989)
Total stock-based employee compensation expense determined under the fair value based method, net of tax	(513)	(172)
	-----	-----
Pro forma	\$ (2,588)	\$ (9,161)
	=====	=====
 BASIC AND DILUTED LOSS PER SHARE		
As reported	\$ (0.14)	\$ (0.61)

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	(0.03)	(0.01)
	-----	-----
Pro forma	\$ (0.17)	\$ (0.62)
	=====	=====

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
	-----	-----	-----
MARCH 31, 2004			
U.S. agencies securities	\$6,271	\$6,299	\$ 28
	=====	=====	=====
DECEMBER 31, 2003			
U.S. agencies securities	\$7,306	\$7,356	\$ 50
	=====	=====	=====

Net proceeds from sales of investments for the three months ended March 31, 2004 and 2003 were approximately \$0.10 million and \$31.40 million, respectively.

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 managements 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

10

5. PROPERTY AND EQUIPMENT

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

	MARCH 31, 2004	(IN THOUSANDS) 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
	----	-----	
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 was 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 had 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 loss before income taxes.

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.

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

11

(\$ in thousands) 2003	THREE MONTHS ENDED MARCH 31,			TO ---
	SANCTIONING -----	RACE PROMOTIONS -----	OTHER* -----	
Revenues	\$ 6,010	\$ --	\$ 154	\$
Interest income (net)	486	--	3	
Depreciation and amortization	798	--	22	
Segment loss before income taxes)	(13,602)	(333)	104	(1

* 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 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 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 has been filed with the Bankruptcy Court. 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

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

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 filed answer denying all allegations. Raceworks filed an answer denying all allegations and asserted a counterclaim for breach of the agreement by S.R. Holdings for failure to make a minimum payment to Raceworks. The Company is unable to make a determination as to the likelihood of an unfavorable outcome or estimate of the amount or range of possible loss.

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

12

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 is a motorsports promotion company that 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.

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.

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)

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

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 acquired this loan in conjunction with the acquisition of Raceworks, LLC and has recorded the loan in its long-term debt as of September 30, 2003. The principal on the loan shall 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.

At December 31, 2003, the Company was in default of certain financial covenants of the loan. These financial covenants require that total stockholders' equity of the Company not be below \$75 million. As a result, the entire amount of the note has been classified as current.

13

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 principle balance of \$1,700,000.

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. The Company has tax assets from U.S. net operating loss carryforwards and foreign tax credit carryforwards of \$90.7 million and \$0.5 million, respectively. The carryforward items expire over the next 5 to 20 years. Failure to achieve taxable income within the carryforward period would affect the ultimate realization of the net deferred tax assets. Due to the financial condition of the Company described in Note 1, Management does not believe that the deferred tax assets will be realized. Consequently, the tax benefit for current year losses and net deferred tax assets recorded at March 31, 2004 has been reduced by a \$33.1 million valuation allowance.

11. 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

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

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)	
	MARCH 31, 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 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 March 31, 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

14

parent company, Championship Auto Racing Teams, Inc. of \$61.6 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 March 31, 2004 and December 31, 2003:

Disputed Claims Not included in Liabilities at

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

March 31, 2004 and December 31, 2003

(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 July 23, 2004 CART, Inc. filed a Chapter 11 plan (the "Plan") and disclosure statement (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 by the Bankruptcy Court on August 3, 2004. The Plan and Disclosure Statement were sent to CART Inc.'s creditors for voting; the hearing on confirmation of the Plan will occur on September 13, 2004.

The following reflects unaudited balance sheet, statement of operations and statement of cash flows information as of and for the three month period ended March 31, 2004 for CART, Inc.:

15

CART, INC.
DEBTOR IN POSSESSION
CONDENSED BALANCE SHEET
AS OF MARCH 31, 2004
(Dollars in Thousands)

	UNAUDITED
ASSETS:	
Current Assets	
Cash and Cash Equivalents	\$ 3,830
Accounts Receivable	780
Current Portion of Notes Receivable	150
Prepaid Expenses	54

Total Current Assets	4,814
 Total Assets	 \$ 4,814
	=====

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

LIABILITIES AND STOCKHOLDER'S DEFICIENCY:

Current Liabilities	
Accounts Payable	\$ 217
Payroll	29
Other	185
Liabilities of CART, Inc. subject to compromise	2,142

Total Current Liabilities	2,573
Inter-company Payable to Championship Auto Racing Teams, Inc.	61,564

Total Liabilities	64,137
Stockholder's Deficiency	
Common Stock	102
Additional Paid In Capital	15,975
Accumulated Deficit	(75,401)

Total Stockholder's Deficiency	(59,324)

Total Liabilities and Stockholder's Equity	\$ 4,814
	=====

CART, INC.
DEBTOR IN POSSESSION
CONDENSED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2004
(Dollars in Thousands)

	UNAUDITED

REVENUES:	
Other revenue	\$ 35

Total revenues	35

EXPENSES:	
Administrative and indirect expenses	1,331

Total expenses	1,331

OPERATING LOSS	(1,296)
Interest expense	(4)

LOSS BEFORE INCOME TAXES	(1,300)

INCOME TAX EXPENSE	--
NET LOSS	\$ (1,300)
	=====

CART, INC.
DEBTOR IN POSSESSION
CONDENSED STATEMENT OF CASH FLOWS

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

FOR THE THREE MONTHS ENDED MARCH 31, 2004
(Dollars in Thousands)

	UNAUDITED
CASH FLOW FROM OPERATING ACTIVITIES:	
Net Loss	\$ (1,300)
Changes in asset and liabilities that provided by (used in) cash:	
Accounts and notes receivable	545
Prepaid expenses and other assets	295
Accounts payable	(1,227)
Accrued liabilities	702
Net cash used in operating activities	(985)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of property and equipment	3,260
Net cash provided by investing activities	3,260
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payments of Inter company payables	(425)
Net cash used in financing activities	(425)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,850
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,980
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,830
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid during the year for:	
Income taxes	--
Interest	--

17

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

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

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. 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 tangible 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. However, as we wind down the Company, our financial position will be based on a number of estimates which will have or may have a significant effect on the Company's financial condition. These estimates 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 a gain contingency until any damages from the claim are assured.

RESULTS OF OPERATIONS THREE MONTHS ENDED MARCH 31, 2004

In 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 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

18

income from our remaining cash reserves. Sanctioning fees are \$12,500 per domestic race and it is estimated that there will be six domestic events in 2004.

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 \$54,000 for the three months ended March 31, 2004, related to equipment rental and other miscellaneous revenues.

Total expenses were \$2.2 million for the three months ended March 31,

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

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 \$1.4 million, salaries, employee and severance related expenses of \$591,000, offices expenses of \$75,000 and other miscellaneous expenses.

Net operating loss for the quarter ended March 31, 2004 was \$2.1 million.

RESULTS OF OPERATIONS THREE MONTHS ENDED MARCH 31, 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 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, 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

19

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)

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

- Promotion Entertainment of Mexico, LLC (Mexico)
- Octagon CSI (all others)

A rights fee were 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 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 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 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:

20

- 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

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

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 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 broadcast on CBS and Speed Channel networks. 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

For the three months ended March 31, 2003, revenues were \$6.2 million. Sanction fees were \$3.0 million and were attributable to the races in St. Petersburg, Florida and Monterrey, Mexico of \$500,000

and \$2.5 respectively. Sponsorship revenue and engine lease revenue are recognized on a pro-rata basis and was \$1.6 million and \$475,000 respectively in

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

the first quarter. Television revenue for the first two races was \$189,000 and miscellaneous revenue was \$902,000.

Expenses for the three months ended March 31, 2003 were \$20.6 million. Race distributions for the first quarter were \$11.0 million which consisted of \$1.3 million in purse and prize money and \$9.7 million in team support and assistance. Race operations and race promotion expenses were \$1.6 million and \$333,000 respectively for the first quarter. Television expense was \$1.5 million, administrative and indirect expenses were \$5.3 million and depreciation and amortization was \$820,000 for the three months ended March 31, 2003.

Operating loss for the quarter ended March 31, 2003 was \$14.4 million. Realized gain on investments for the quarter was \$85,000 and interest income was \$489,000. An income tax benefit of \$489,000 was recognized for the quarter. A net loss of \$9.0 million resulted due to the items discussed above for the three months ended March 31, 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 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 cash generated from operations. At March 31, 2004, we had \$8.0 million in working capital, and our primary source of liquidity was \$4.7 million in cash and cash equivalents. Our cash balance on March 31, 2004 was \$4.6 million, a net increase of \$1.4 million from December 31, 2003. This increase was primarily the result of net cash from the sale of CART, Inc.'s assets and sale of investments totaling \$4.1 million. Cash was used to pay existing liabilities and for operating expenses related to the wind down of our business.

Our short term investment balance on March 31, 2004 was \$6.3 million, a net decrease of \$1.1 million from December 31, 2003. This decrease was primarily due to funding our operations during the the three months ended March 31, 2004.

CONTRACTUAL OBLIGATIONS. 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 March 31, 2004 is \$2.0 million. We have sublet this office space to Open Wheel, on substantially the same terms as our lease and retain office space for our use, at no cost. However, we remain liable on the lease.

In July 2002, we guaranteed a \$1.8 million commercial term loan in connection with our acquisition of Raceworks, LLC. The Company subsequently acquired this loan in conjunction with the acquisition of Raceworks, LLC and has recorded the loan in its long-term debt. The principal on the loan shall be paid quarterly, starting 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 principle and interest were paid for the October 2003 and January 2004 installments. The Company was in default of certain financial covenants of the

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

loan. These financial covenants require that total stockholders' equity of the Company not be below \$75 million. As a result, the entire amount of the note has been classified as current. On May 10, 2004, the entire principal of the note was paid according to an assignment and release entered into with the holder of the note.

22

On March 7, 2003, we acquired 100% of the equity in Raceworks, LLC. The purchase price was \$1.2 million, including \$473,000 of cash and a contingent promissory note of \$722,000, without interest, and assumption of liabilities of \$4.7 million. On December 8, 2003, the company entered into a release and settlement agreement, with the sellers of Raceworks, that released both parties from any future obligations under the acquisition agreement in exchange for payment of \$361,250 in cash to the sellers. In December of 2003, after the merger agreement with OWRS was terminated, as discussed above, it was determined that OWRS had no interest in the assets of Raceworks, LLC or continuing to race in the city of Miami. The Company recognized an impairment charge of \$5.1 million to write-off the goodwill and long lived assets of Raceworks, LLC.

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 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.

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

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.

23

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 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

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

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

24

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:

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. 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 March 31,

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

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 March 31, 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.

25

CHAMPIONSHIP AUTO RACING TEAMS, INC.

PART II - OTHER INFORMATION

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

(a) Exhibits.

- 31.1 Form 10-Q Certification by Christopher R. Pook, Chief Executive Officer dated as of August 24, 2004.
- 31.2 Form 10-Q Certification by Thomas L. Carter, Chief Financial Officer dated as of August 24, 2004.
- 32.1 Section 906 Certification by Christopher R. Pook, Chief Executive Officer dated as of August 24, 2004.
- 32.2 Section 906 Certification by Thomas L. Carter, Chief Financial Officer dated as of August 24 , 2004.

(b) Reports on Form 8-K.

- 1) On January 20, 2004, the Company filed a Form 8-K, pursuant to Item 5 of such form, reporting that we issued a Press Release announcing the filing of an amendment to the Asset Purchase Agreement, which was entered into between the Company and Open Wheel Racing Series on December 15, 2003.
- 2) On April 14, 2004, the Company filed a Form 8-K, pursuant to Item 5 of such form, reporting that we

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

issued a Press Release announcing that the Company could not file its Form 10-K fiscal year ended December 31, 2004 on a timely basis.

- 3) On May 14, 2004, the Company filed a Form 8-K, pursuant to Item 5 of such form, reporting that we issued a Press Release announcing that the Company could not complete the filing of its Form 10-Q for the quarter ended March 31, 2004.
- 4) On August 17, 2004, the Company filed a Form 8-K, pursuant to Item 5 of such form, reporting that we issued a Press Release announcing that the Company could not complete the filing of its Form 10-Q for the quarter ended June 30, 2004.

26

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: August 24, 2004

By: /s/ Thomas L. Carter

Thomas L. Carter
Chief Financial Officer

27