

CHAMPIONSHIP AUTO RACING TEAMS INC

Form 10-K

March 28, 2001

1

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____.

COMMISSION FILE NUMBER 1-13925

CHAMPIONSHIP AUTO RACING TEAMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

38-3389456

(State or other jurisdiction of
Incorporation or organization)

(IRS Employer Identification No.)

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

(Address of principal executive offices) (Zip Code)

(248) 362-8800

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Common Stock, \$.01 par value	Name of each exchange on which registered New York Stock Exchange
--	--

Securities registered pursuant to section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to Form 10-K.

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

On March 20, 2001 the aggregate market value of the shares of voting stock of Registrant held by non-affiliates was approximately \$183,025,422 based on a closing sales price on the NYSE of \$15.25 per share.

At March 20, 2001, the Registrant had 15,765,467 shares of common stock outstanding.

2

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2001 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission, not later than 120 days after the close of its fiscal year, pursuant to Regulation 14A, are incorporated by reference into Items 10, 11, 12 and 13 of Part III of this annual report.

2

3

FORM 10-K TABLE OF CONTENTS

PART I	
Item 1.	Business.....
Item 2.	Properties.....
Item 3.	Legal Proceedings.....
Item 4.	Submission of Matters to a Vote of Security Holders.....
PART II	
Item 5.	Market of the Registrant's Common Equity and Related Stockholder Matters
Item 6.	Selected Consolidated Financial Data.....
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operation.....
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.....
Item 8.	Financial Statements and Supplementary Data.....
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....
PART III	
Item 10.	Directors and Executive Officers of the Registrant.....
Item 11.	Executive Compensation.....
Item 12.	Security Ownership of Certain Beneficial Owners and Management.....
Item 13.	Certain Relationships and Related Transactions.....
PART IV	
Item 14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K.....

SIGNATURES

PART I

ITEM 1: BUSINESS

INTRODUCTION

We own, operate and sanction the premier open-wheel motorsports series in North America—the CART FedEx Championship. We are responsible for organizing, marketing and staging each of the races in the CART Championship. With speeds of up to 240 miles per hour, CART open-wheel racing is the fastest form of closed-circuit auto racing available to motorsports audiences, providing intense excitement and competition. We also own and sanction the Indy Lights Championship and the Atlantic Championship, both development series for the CART Championship.

The drivers and racing teams participating in CART racing events are among the most recognized names in motorsports, with marquee drivers including:

- Michael Andretti
- Adrian Fernandez
- Gil de Ferran
- Christian Fittipaldi
- Dario Franchitti
- Paul Tracy
- Jimmy Vasser
- Alex Zanardi

The excitement and competition of CART racing also attracts well-known racing legends, business leaders and sports and entertainment personalities as team owners including:

- Chip Ganassi
- Carl Haas
- David Letterman
- Bruce McCaw
- Paul Newman
- U.E. "Pat" Patrick
- Roger Penske
- Bobby Rahal

Major sponsors of the CART Championship include:

- Federal Express, Title Sponsor
- Worldcom
- Simple Green
- Honda
- Craftsman
- Motorola
- PPG

In addition, other Fortune 500 companies sponsor particular race teams and events.

Open-wheel racing is the oldest continually scheduled motorsports competition in the world, tracing its history to 1904. The 2001 CART Championship will include 21 races staged in seven countries:

- Australia
- Canada
- England
- Germany
- Japan
- Mexico
- United States

We conduct our races on four different types of tracks, requiring teams and drivers competing for the CART Championship to employ a variety of skills to master different courses. Each race weekend in the CART Championship is an "event" offering spectators the opportunity to enjoy a CART race, as well as a full weekend of motorsports related entertainment. Most of our events include additional races, such as events in the Indy Lights Championship or the Atlantic Championship, practice and qualifying rounds for all racing events, and automotive and general entertainment demonstrations and displays. Race weekends provide corporate sponsors and other businesses the opportunity to entertain their customers and employees through hospitality areas and other activities.

We derive our revenues from four primary sources:

- sanction fees paid by track promoters
- corporate sponsorship fees
- television revenues
- engine leases and rebuilds for the Indy Lights series

Our revenues have increased during the last five years from \$41.1 million in 1996 to \$75.0 million in 2000.

We were incorporated in Delaware in December 1997. Our principal executive office is located at 755 West Big Beaver Road, Suite 800, Troy, Michigan 48084, and our telephone number is (248) 362-8800.

RISK FACTORS

SUBSTANTIAL COMPETITION - OUR RACING EVENTS FACE INTENSE COMPETITION FOR ATTENDANCE, TELEVISION VIEWERSHIP AND SPONSORSHIP. Our industry is highly competitive. We cannot assure you that we will be able to maintain or improve our market position. Our racing events compete with other events for television viewership, attendance and sponsorship funding. Our racing events compete with racing events sanctioned by other racing bodies, including:

- Formula One
- National Association of Stock Car Automobile Racing ("NASCAR")
- Indy Racing League ("IRL")
- National Hot Rod Association ("NHRA")
- Sports Car Club of America ("SCCA")
- Professional Sports Car Racing ("PSCR")

In addition, our racing events compete with other sports, entertainment and recreational events, including:

- Football
- Basketball
- Baseball
- Golf

RELIANCE ON PARTICIPATION BY TEAMS - OUR FUTURE SUCCESS IS DEPENDENT UPON THE CONTINUED PARTICIPATION OF RACING TEAMS IN CART-SANCTIONED RACE EVENTS. If teams that currently participate in our events terminate their participation, then that could adversely affect our financial and business results. The teams participating in our events derive substantially all of their funding for race operations from their sponsors. Generally, team sponsors measure advertising exposure to determine future sponsorship commitments. A decrease in our attendance or television viewership could adversely affect the level of funding by some team sponsors. If sponsorship revenues are not available to teams, then those teams may not have the necessary funding to participate in our events. In addition, teams may elect to participate in a competing series rather than CART. We can not assure you that the current race teams will participate in future events.

RELIANCE ON INDUSTRY SPONSORSHIPS - A SIGNIFICANT DECLINE IN SPONSORSHIP, PROMOTION AND ADVERTISING DOLLARS AVAILABLE TO US, OUR RACE PROMOTERS AND THE RACING TEAMS PARTICIPATING IN OUR EVENTS IN THE FUTURE COULD ADVERSELY AFFECT OUR FINANCIAL AND BUSINESS RESULTS. We generate significant revenue each year from the sponsorship, promotion and advertising of various companies and their products. The revenue generated from such sponsorship, promotion and advertising substantially depends upon the level of advertising expenditures by sponsors or prospective sponsors. The level of advertising expenditures depends in part on the financial condition of such companies and the availability and cost of alternative promotional outlets. It also depends on their perception of the benefits of using us, our events or race teams as an advertising medium. Television viewership, spectator attendance and race venues for our events significantly impact the advertising and promotional value to sponsors.

RELIANCE ON PARTICIPATION BY SUPPLIERS - WITHOUT THE PARTICIPATION OF SUPPLIERS IN PROVIDING ENGINES, CHASSIS AND TIRES, WE MAY NOT BE ABLE TO CONTINUE SOME OF OUR RACING SERIES. We are dependent upon the continued participation of suppliers of engines, tires and chassis to teams competing in our events. The engines and tires for our race cars are designed specifically for our racing. In 2000, only one tire manufacturer supplied tires to competitors in the CART Championship. We had four major engine manufacturers in 2000, but will only have three major engine manufacturers in 2001. We believe that the costs to some industry suppliers are greater than the revenues generated from the sale or lease of such products, and therefore, they must derive advertising or technical benefits from such participation.

RELIANCE ON EVENT PROMOTERS - WE DERIVE A SUBSTANTIAL PORTION OF OUR TOTAL REVENUES FROM SANCTION FEES WHICH ARE PAID TO US BY EACH PROMOTER. If several promoters incur financial losses or restrictions that prohibit future events from taking place or if such promoters elect not to promote our events in the future, we believe this could adversely affect our financial and business results. In February 2001, we had to cancel our 2001 race in Brazil due to the fact that the City of Rio de Janeiro was in default of its agreement concerning the 2001 Rio 200.

LIMITATIONS ON SPONSORSHIP - THE LOSS OF MOTORSPORTS INDUSTRY

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

SPONSORSHIPS FROM TOBACCO AND ALCOHOL COMPANIES COULD HAVE ADVERSE EFFECTS ON US. Governmental authorities in many countries regulate advertising by companies in the alcohol and tobacco industries.

6

7

Companies involved in these industries have been significant sponsors of race teams, racing series and events. Governmental authorities have taken steps to further restrict sponsorship by tobacco companies. We do not derive significant sponsorship revenue from the tobacco and alcohol industries, but many of the race teams participating in our events derive a substantial portion of their operating revenues from such industry sponsors. In addition, many of our race events are sponsored in part by companies in the tobacco or alcohol industries, with such sponsorship fees paid to the track promoters. If these race teams and track promoters lose sponsorship fees from tobacco or alcohol industry sponsors without locating another sponsor, then we could lose that team as a participant or that promoter and it could adversely affect our financial and business results.

In 1998, Phillip Morris, Brown & Williamson, Lorillard, R.J. Reynolds and the Liggett Group entered into a settlement agreement with 46 states and the District of Columbia (collectively, the "States"). The settlement agreement restricts tobacco product advertising and marketing within the States. Among other restrictions, the settlement agreement:

- prohibits tobacco product brand name sponsorship of concerts, events in which the intended audience is comprised of a significant percentage of youth under age 18, events in which any paid participants or contestants are youths, or any athletic event between opposing teams in any football, basketball, baseball, soccer or hockey league; and
- limits each participating manufacturer to one tobacco product brand name sponsorship during any twelve-month period.

We cannot assure you that a tobacco company will choose a motorsports event as its one annual event to sponsor. If a tobacco company does choose to do so, the settlement agreement permits the use of a tobacco product brand name for a race car series and a single race team within that series. If the tobacco company is not a sponsor of the race series in which the race team is competing, it can use the tobacco product brand name only for a single race team.

EXPANSION - WE HAVE A LIMITED ABILITY TO EXPAND OUR RACE SCHEDULE. Expansion of the number of races we stage each year will require additional personnel and resolution of logistical issues such as transportation and availability of equipment. Our ability to expand the race schedule will also be limited by the availability of funding and equipment to teams for participation in additional events and by the teams' willingness to participate in an expanded schedule.

INDIANAPOLIS 500 - NON-PARTICIPATION BY CART TEAMS AND DRIVERS IN THE INDIANAPOLIS 500 COULD HAVE AN ADVERSE EFFECT. We are unable to predict what effect the continued non-participation by a substantial number of our teams at the Indianapolis 500 will have on our financial and business results. The IRL was formed in 1995 as a rival open-wheel racing league to compete directly with us. The IRL was founded by affiliates of the Indianapolis Motor Speedway. Since the creation of the IRL and certain rule changes at the Indianapolis 500, most of the CART teams and drivers have not competed at the Indianapolis 500.

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

The Indianapolis 500 is a major racing event in the United States. It draws substantial television viewership. For these reasons, many companies that sponsored race teams historically regarded an involvement at the Indianapolis 500 as being an extremely important part of their sponsorship. Corporations have spent a considerable sum of money to sponsor racing teams participating at the Indianapolis 500 and for advertising and promotions for such sponsorship.

GROWTH STRATEGY - WE MAY NOT BE ABLE TO SUCCESSFULLY IMPLEMENT OUR GROWTH STRATEGY. A factor in our growth strategy is to acquire and develop race-related businesses and properties. We

7

8

cannot assure you that we will be able to identify and acquire race-related businesses and properties. Our ability to effectively manage our future growth and to successfully implement this growth strategy will require us to successfully integrate the operations of acquired businesses and properties with our operations. We will also need to enhance our operational, financial and management systems. In addition, we will need to successfully hire, train, retain and motivate additional employees. If we fail to manage our growth effectively, then this could have an adverse affect on our financial and business results.

LIABILITY FOR RACING-RELATED INCIDENTS - WE FACE THE INHERENT RISKS AND EXPOSURE TO CLAIMS IN THE EVENT THAT SOMEONE IS INJURED AT A CART-SANCTIONED EVENT. Racing events can be dangerous to participants and spectators. We have and will continue to have liability insurance to cover past and any future racing incidents. We are also indemnified by track promoters for racing incidents and obtain waivers from those participating in our events. To the extent not covered by insurance, any claims and associated expenses related to prior racing incidents could adversely affect our financial and business results. In addition, any claims and associated expenses related to future potential racing incidents, to the extent not covered by insurance, could adversely affect our financial and business results.

In 1999, two of our drivers died in racing related incidents. In 2000, we were named as defendants in lawsuits filed by representatives of each of the drivers. Refer to Item 3: Legal Proceedings.

CONTROL - OUR DIRECTORS AND OFFICERS CONTROL THE VOTING POWER. Our current directors and officers own approximately 25% of the outstanding shares of common stock. As a group, along with those affiliated with our race teams, they will control the outcome of substantially all issues submitted to our stockholders, including the election of directors. The interests of this group could conflict with the interests of the other stockholders.

CONFLICTS - SOME OF OUR CURRENT STOCKHOLDERS AND DIRECTORS HAVE CONFLICTS OF INTEREST. Some of our current stockholders and most of our directors are affiliated with a race team that participates in the CART Championship. These factors result in an inherent conflict of interest for certain matters to be considered by the stockholders or directors. In addition, some of our stockholders and directors either control or are affiliated with others who control racing venues which stage CART and other racing events. Therefore, a conflict of interest may arise when we determine the location and dates of CART events and the amount of sanction fees paid. Under Delaware law, all directors owe a fiduciary duty to our stockholders.

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

NEW RACE VENUES - WE MAY NOT BE ABLE TO SUCCESSFULLY INTEGRATE NEW RACE VENUES AND EXTEND OR RENEW CURRENT VENUES. The 2001 CART Championship will include four races at new venues and three of such events will be on newly constructed tracks. Our operational success depends upon the success of our racing events. If these new events and new venues are not successfully implemented, then our financial and business results could be adversely affected. In addition, our agreements with track promoters at seven venues will expire in 2001. We will either need to negotiate terms for renewal of contracts for future races at these venues or find alternative venues for our races in the future.

RENEWAL OF TELEVISION CONTRACTS - WE CAN NOT ASSURE YOU THAT AN AGREEMENT WILL BE REACHED. Our television contract with ESPN ends in 2001. If we are unable to negotiate a domestic and/or international television contract for coverage of our CART Championship races in the future, our financial and business results could be adversely affected. Although we are in discussions with parties to provide television coverage beginning in 2002, we cannot assure you that an agreement will be reached or the timing of any such agreement.

INTERIM RESULTS - OUR QUARTERLY RESULTS ARE SUBJECT TO FLUCTUATION AND SEASONALITY AS A RESULT OF THE SCHEDULING OF OUR RACES. Historically, our revenues are higher in the second and third

8

9

quarters of the year due to the number of races that we stage in those quarters. The scheduling of any race in the CART Championship can significantly affect our quarterly results of operations when compared to a previous quarter if races are scheduled during different quarters from year to year. You may be unable to usefully compare our results in one quarter to our results in a prior period due to these timing differences. This may affect your ability to analyze our results on a quarterly basis and could also affect the market price of our stock. You should see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Seasonality and Quarterly Results" for a discussion of our quarterly results.

SALES OF SHARES - SALES OF SHARES BY EXISTING STOCKHOLDERS COULD ADVERSELY EFFECT THE MARKET PRICE OF OUR COMMON STOCK. Sales of significant amounts of common stock in the public market by the team owners, or the perception that such sales may occur, could cause the market price of the common stock to drop. As of March 20, 2001, 15,765,467 shares of common stock were outstanding.

INDUSTRY OVERVIEW

TYPES OF AUTO RACING. Auto racing consists of several distinct categories, each with its own organizing body and racing events. Internationally, the most recognized form of auto racing is open-wheel racing, utilizing an aerodynamically designed chassis and technologically advanced equipment. The most established open-wheel racing series are:

- Formula One
- CART Championship
- IRL
- Formula 3000
- Indy Lights Championship
- Atlantic Championship

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

- FORMULA ONE. The Formula One World Championship was founded in 1950. The Federation Internationale de L'Automobile ("FIA") sanctions Formula One World Championship events consisting of open-wheel races on road courses in Europe, South America, Asia, United States of America, Canada and Australia. The 2001 season will include 17 races. The 2000 Formula One calendar included 17 events.

- CART. The CART Championship started in 1978 and is the premier open-wheel motorsports series in North America. The CART Championship is sanctioned by CART and will include 21 races this year. The 2000 season included 20 races. CART events are staged on four different types of tracks:

- superspeedways
- ovals
- temporary street courses
- permanent road courses

Superspeedways are banked ovals of two miles or more in distance. Oval tracks are closed circuits, less than two miles in distance, which are often "banked" at varying angles. Temporary street courses are typically built on closed-off downtown streets of major cities, but can also be built on airport runways or similar facilities that have a primary purpose other than as a motorsports venue. Permanent road courses are raceways built solely for motorsports racing and are designed with varying turns, straight-aways and elevation changes to simulate driving on a road.

9

10

Racing on different types of tracks requires teams and drivers to employ a variety of skills to master different courses to compete for the CART Championship.

- IRL. The IRL was formed as a rival United States open-wheel racing series, competing with CART and began racing in 1996. The IRL sanctions its own events. The IRL's events are staged solely on oval courses and will include 13 races this year, including the Indianapolis 500. The IRL's 2000 season consisted of 10 races, including the Indianapolis 500.

- FORMULA 3000. The FIA sanctions the International Formula 3000 Championship. The 2001 championship season covers Europe between March and September in a twelve race series. Success in Formula 3000 has been the stepping stone for many drivers into Formula One.

- INDY LIGHTS CHAMPIONSHIP. We sanction the Indy Lights Championship and have designated it as the "Official Development Series of the CART Championship." Similar to CART, the Indy Lights Championship is staged on four different types of tracks. The Indy Lights Championship consisted of 12 races during the 2000 season in the United States and Canada. In 2001, the Indy Lights Championship will be comprised of 12 races in the United States, Canada and Mexico, with nine races held in conjunction with CART events and three races held in conjunction with IRL events.

- ATLANTIC CHAMPIONSHIP. We also sanction the Atlantic Championship. The Atlantic Championship is also a stepping stone to a

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

career in international motorsports competition. The 2000 Atlantic Championship consisted of 12 races in the United States and Canada. The 2001 Atlantic Championship will consist of 12 races in the United States and Canada, with 10 events held in conjunction with CART events, one race as a support series to a Formula One race in Montreal, Canada, and another as a stand alone race.

The largest auto racing category in the United States, in terms of attendance, media exposure and sponsorships, is stock car racing. Stock car racing utilizes equipment similar in appearance to standard passenger automobiles and races are typically staged on oval courses. The most prominent organizing body in stock car racing is NASCAR. Drag racing typically involves short sprint races on a straight-line drag strip. The NHRA is the most prominent organizing body in drag racing. Other, less prominent, racing segments include various types of sports car racing and club racing.

- NASCAR. Professional stock car racing developed in the Southeastern United States in the 1930's, and NASCAR has been influential in the growth and development of the sport. NASCAR is the most recognized sanctioning body of professional stock car racing in North America, sanctioning the Winston Cup and Busch Grand National stock car race series. The 2000 Winston Cup and Busch Grand National race series included 37 and 32 races, respectively; all of which were held in the United States. The 2001 Winston Cup and Busch Grand National race series will include 39 and 33 races, respectively, all in the United States.

- OTHER SANCTIONING BODIES. Sports car races are held on road courses and temporary street circuits throughout the United States and are sanctioned by SCCA and PSCR. The NHRA sanctions drag races in the United States. The Automobile Racing Club of America ("ARCA") sanctions stock car races that are less prominent than those sanctioned by NASCAR.

Motorsports events are generally heavily promoted, with a number of supporting events surrounding the main race event. Examples of supporting events include:

10

11

- qualifying trials
- secondary racing events
- driver autograph sessions
- automobile and product expositions
- catered parties

These events are all designed to maximize the spectators' entertainment experience and enhance the value of the sponsorship experience.

PARTICIPANTS. The primary participants in motorsports are:

- spectators
- corporate sponsors
- track owners/race promoters
- drivers
- team owners
- sanctioning bodies

SPECTATORS. After soccer, motorsports is the most watched sport worldwide. Motorsports is among the fastest growing spectator sports in the

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

United States. During 2000, approximately 2.6 million people attended CART events. CART races were also televised in 208 countries in 2000.

CORPORATE SPONSORS. Corporate sponsors are drawn to motorsports by the large number of spectators and television viewers and their attractive demographics. Corporate sponsors are active in all phases of the industry. We believe that the demographic profile of our growing spectator base has considerable appeal to sponsors, track owners, television networks and advertisers. The mean household income of our spectators is estimated to be \$61,400, compared to \$47,600 for an average United States household. We believe that the spectators are loyal to motorsports and to its corporate sponsors. In addition to sponsoring the various racing series, corporate sponsors support drivers and teams by funding certain costs of their operations, and race promoters and track owners by sponsoring and promoting specific events. In return, corporate sponsors receive advertising exposure on television and radio, through newspapers and in printed materials. Corporate sponsors also receive advertising, promotional and hospitality benefits at the track during the race weekend. Finally, corporate sponsors benefit from the attractive values of the high-speed, high technology competition that we provide. These values can be used to add new values and points of difference to each sponsor's brands. Companies negotiate sponsorship arrangements based on factors including a series' or event's audience size, spectator demographics and a team's racing success.

TRACK OWNERS/RACE PROMOTERS. Race promoters, which include track owners, government organizations and other groups, pay a fee to have an event sanctioned at their race venue. Race promoters are responsible for the local marketing and promotion of the event. Their revenue sources generally include:

- admissions
- sponsorships
- corporate hospitality (suites, chalets and tents for race viewing and other amenities)
- advertising
- concessions and souvenir sales

DRIVERS. A majority of drivers contract independently with team owners, while select drivers may own their own teams. Principally, drivers receive income from contracts with team owners, sponsorship fees and prize money. Successful drivers may also receive income from personal endorsement fees, sales of licensed merchandise and souvenir sales. The personality and

success of a driver can be an important marketing advantage for the sanctioning body and team owners because it can help attract audiences, corporate sponsorships and generate sales for licensed merchandise.

TEAM OWNERS. In most instances, team owners underwrite the financial risk of placing their teams in competition. They contract with drivers, acquire racing vehicles and support equipment, employ pit crews and mechanics and syndicate sponsorship of their teams. Team owners generally receive income primarily from sponsorships and a percentage of prize money won.

SANCTIONING BODIES. Sanctioning bodies such as us sanction events at various race venues in exchange for fees from race promoters. Sanctioning bodies are responsible for all aspects of race management necessary to "manufacture" the race event. They are responsible for presenting racing cars, drivers and

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

teams and providing race officials to ensure fair competition, as well as providing the race and series' purses and other prize payments.

The FIA, based in Geneva, Switzerland, is the worldwide governing body for auto racing, with "national sporting authority" members in more than 100 countries. The FIA's United States national sporting authority is the Automobile Competition Committee of the United States ("ACCUS"). It in turn is made up of seven member-sanctioning organizations:

- CART
- NASCAR
- United States Auto Club ("USAC")
- PSCR
- NHRA
- SCCA
- IRL

GROWTH STRATEGY

Our growth strategy is to increase revenues and net income by expanding the worldwide audience for CART racing. We intend to build brand awareness by capitalizing on the thrill and excitement of CART racing as well as our position as a premier open-wheel racing series. We believe that these factors will provide us with opportunities for increased overall:

- sanction fees
- corporate sponsorship fees
- television revenues
- royalties

We intend to implement our growth strategy by:

- INCREASING MARKET PENETRATION IN THE UNITED STATES. Our management continues to explore additional opportunities to develop our race schedule around other key markets in the United States. Because our races are conducted on superspeedways, ovals, temporary street courses and permanent road courses, we believe we have great flexibility in selecting future race venues. In 2001, we will conduct an inaugural event in Dallas/Fort Worth, Texas.

- EXPAND INTERNATIONAL AUDIENCE. We believe that the world market for motorsports is predisposed to CART's style of exciting, competitive, open-wheel racing. The CART Championship spanned five countries on four continents in 2000, with events in the United States, Canada, Australia, Brazil and Japan. In 2001, we will conduct new events in Mexico, Germany and the United Kingdom. We typically receive higher sanction

fees from the race promoters of international race events. Our management continues to explore additional opportunities to export our high-value, American racing product throughout the world and to include more international-based sponsors for the CART Championship and our race teams.

- EXPAND MEDIA EXPOSURE. We plan to expand our overall television presence on a worldwide basis, with new races in Mexico, Germany and England. Increasing our race schedule from 20 to 21 races in 2001 results

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

in our company being the rights holder for over 142 hours of high quality motorsports programming. We intend to build the worldwide distribution base for all three race series in the future. In the United States, we will focus on improving our television ratings on both network and cable and on developing race programming focused on new audiences for the sport.

In 2001, 18 of the CART Championship 21 race schedule will be live on Eurosport for 54 countries in Europe. We will explore additional media opportunities in 2001. We are also expanding our radio race coverage and will be broadcasting all 21 races in all of our North American race markets, plus the Phoenix, Las Vegas and Indianapolis markets. In addition, we will broadcast our "CART Hotline," a radio call-in show that will air in the above-mentioned markets every Thursday evening during our race season. All radio coverage will also be simulcast on CART.com. Television and radio programming in addition to race coverage is an important element in our strategy to increase brand awareness and educate our fans.

We have experienced significant growth with our web site CART.com. During 1998, we added E-Commerce and a business section to CART.com. During 2000, our website received 9.8 million visits, up by 23% from 1999.

- ACQUIRE AND DEVELOP RELATED BUSINESSES AND PROPERTIES. We will selectively pursue opportunities to acquire and apply our brand name to other race-related businesses and properties. We expect to vertically integrate certain support-racing series to develop future racing talent in the United States. We are also seeking opportunities to acquire and develop race experience products which will provide potential and existing race fans with an affordable and accessible opportunity to experience the sport. These may include opportunities such as:

- Simulation or virtual reality products
- Race schools

As the first step in this strategy, in 1998, we acquired American Racing Series ("ARS"), which operates Indy Lights, and certain assets of BP Automotive ("BP"), which provides certain equipment to the participants of Indy Lights, as well as Pro-Motion Agency which operates the Atlantic Championship series.

Recently we formed an alliance with the Skip Barber race schools to develop race talent of the future. We will sanction the Barber Dodge Pro Series beginning in 2001 and the series becomes the "Official Entry Level Professional Race Series of CART." In addition, the Skip Barber Race School, the world's biggest and best, is now the "Official Racing School of CART."

THE CART ADVANTAGE

The drivers, cars, venues and fans provide us with a world class product for audiences and sponsors.

THE DRIVERS. The diversity of our drivers adds to our worldwide appeal. In 2000, 25 of the 31 drivers who competed in at least one of our race events

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

were born outside of the United States. In total, these drivers represented 12 different countries. In 2000, the top 6 drivers in the CART Championship represented 5 different countries.

THE CARS. The cars are developed by a variety of different chassis manufacturers:

- Lola
- Reynard

These high-tech race cars are powered by state-of-the-art engines from:

- Ford
- Honda
- Ilmor
- Toyota

Beginning with the 2000 race season, all cars rode on tires provided by Firestone.

THE VENUES. CART races are conducted on four different types of tracks:

- superspeedways
- ovals
- temporary street courses
- permanent road courses

The variety of tracks require different set-ups for chassis, engines and tires, requiring drivers and teams to adapt to the various courses.

THE FANS. The primary means for a fan to interface with the CART Championship is through direct attendance at events or by television viewership. Our spectators are demographically attractive to sponsors and advertisers. They are generally young individuals with education and income levels above the U.S. national average. This makes sponsorship of CART, our teams and events an attractive advertising and promotional investment. Our television audience, while closer to the national average for household income, encompasses an above-average proportion of adult males. This is an attractive demographic for advertisers since this age group tends to watch less television than the average American.

CART HISTORY

CART-style, open-wheel racing stands as the longest continually scheduled major motorsports championship in the world, dating back to the early 1900s. The first American automobile race took place in 1895, and the American Automobile Association ("AAA") began sanctioning major races in 1904. The AAA sanctioned races through the 1955 season at which time USAC became the official sanctioning body.

In the 1970s, race team owners became increasingly concerned about escalating costs, lack of promotional activities and concentration solely on the Indianapolis 500. As a result, in November 1978, a group of 18 of the 21 team owners left USAC to form CART and the CART Championship. The group included team owners who desired greater participation in the rule-making and administrative processes concerning open-wheel racing in the United States. In its 1979 inaugural season, CART staged 13 races, and we crowned Rick Mears as our first champion.

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

15

Since Mears' victory in the inaugural season, CART has had many other memorable champions including:

- Mario Andretti
- Michael Andretti
- Gil de Ferran
- Emerson Fittipaldi
- Nigel Mansell
- Juan Montoya
- Bobby Rahal
- Johnny Rutherford
- Danny Sullivan
- Al Unser, Jr.
- Al Unser, Sr.
- Jimmy Vasser
- Jacques Villeneuve
- Alex Zanardi

Competitive, close racing is the hallmark of CART. In 2000, we had a series-record 11 different winners, one more than the mark established just one year earlier, and 16 different drivers finishes on the podium. Four drivers collected their first Champ Car victories - Max Papis, Helio Castroneves, Roberto Moreno and Cristiano da Matta. The 2000 championship was one of the most intense in CART history, as five different drivers entered the last race of our 20 race schedule with a chance to win the championship, which ultimately went to Gil de Ferran of Marlboro Team Penske. It was the eighth CART championship for the Penske team, a series record.

Due to changes to equipment specifications, CART teams have generally not competed in the Indianapolis 500 since 1995. In 2000, two CART Drivers participated in the Indianapolis 500, Juan Montoya and Jimmy Vasser. Juan Montoya won the 2000 Indianapolis 500, with teammate Jimmy Vasser finishing seventh in the race. In 2001, we have elected not to schedule a race during the weekend the Indianapolis 500 is run. We cannot predict the number of our race teams that will participate in the Indianapolis 500 this year. We continue to evaluate opportunities for an accommodation with the Indianapolis Motor Speedway, but we can not assure you that a resolution will be reached or of the timing of any such resolution. We are unable to predict what effect, if any, the continued non-participation by CART teams at the Indianapolis 500 will have on our future results.

Since 1995, we have added races in the United States in:

- Dallas/Fort Worth, Texas (in 2001)
- Fontana, California
- Houston, Texas
- Cicero, Illinois

Internationally, we added a race in Rio de Janeiro, Brazil in 1996, Motegi, Japan in 1998, and Monterrey, Mexico; Lausitz, Germany; and Corby, England in 2001.

FRANCHISE SYSTEM AND RACE TEAMS

We have operated CART as a "franchise system" since 1984. We offered franchises for each competing car, with owners limited to a maximum of two franchise memberships. The number of franchises we have awarded has varied, but we have never awarded more than 25

franchises. To become a CART franchise member, a race team must have competed in all CART events for the prior race year.

The participation of race teams is critical to our ongoing success. Our franchise system is the only race governing system to offer teams direct input into race scheduling, rules and other racing activities. We believe that the franchise system is a significant factor in encouraging entities who are interested in auto racing to participate in our sanctioned events.

Currently, the 24 franchise teams are permitted to designate a member to the Franchise Board. The Franchise Board manages and oversees all racing-related activities and makes all decisions with respect to specifications for engines and chassis, race participation, rules and related matters.

INDY LIGHTS CHAMPIONSHIP

In 1998, we acquired 100% of the outstanding common stock of ARS and certain other assets. ARS operates the Indy Lights Championship series and supplies certain equipment to the participants.

CART racing team owner and founding member, U.E. "Pat" Patrick, formed the Indy Lights Championship in 1986 as a series in which team owners could discover and develop the next generation of CART talent. Mr. Patrick designed Indy Lights to emphasize driver and team talent, while reducing any advantage gained through large monetary expenditures for equipment and technology. By restricting competition to a single chassis design, powered by identical, sealed engines and running a single brand of tires, Indy Lights offers a series in which costs can be carefully controlled, creating a level playing field for drivers, team managers and engineers.

We have designated the Indy Lights Championship the "Official Development Series of the CART Championship," and we sanction its race events. During the 2000 season, both current Indy Lights drivers and series graduates in the CART Championship set records in each series. Six different drivers won Indy Lights races and the championship battle was the closest in history with Townsend Bell, Casey Mears and eventual winner Scott Dixon involved in a three-way points battle going to the final race. In the 2000 CART Championship, Indy Lights graduates won a record 9 of 20 races. Indy Lights graduates have now won forty CART Championship races since 1993. Some graduates from the Indy Lights Championship who have competed in the CART Championship include drivers:

- Helio Castroneves
- Cristiano da Matta
- Adrian Fernandez
- Bryan Herta
- Greg Moore
- Tony Kanaan
- Paul Tracy
- Andrea Ribeiro
- Oriol Servia

In 2000, two CART team owners, Bruce McCaw (PacWest Racing) and Barry Green (Team KOOL Green), also had teams competing in the Indy Lights Championship.

Similar to the CART Championship, we stage the Indy Lights Championship races on four different types of tracks. At certain venues, we receive a

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

sanction fee from the promoter for staging the Indy Lights event. We believe that the Indy Lights Championship can create significant revenue growth for us through:

16

17

- packaged sponsorships with our other race series
- extending our efforts to integrate category sponsorship
- additional sanction fees for "stand alone" Indy Lights events, both in the United States and overseas

In 2001, the Indy Lights Championship will include three races in conjunction with IRL events at Kansas Speedway, Kansas City, Kansas; Gateway International Speedway in Madison, Illinois; and Chicagoland Speedway in Juliet, Illinois.

ATLANTIC CHAMPIONSHIP

In 1998, we acquired 100% of the outstanding common stock of Pro-Motion Agency. Pro-Motion Agency operates the Atlantic Championship open-wheel series.

Atlantic's international flavor is rooted in 28 years of drivers from the United States, Canada, Great Britain, Australia, New Zealand, Asia, Japan, Argentina, Brazil and South Africa.

The Atlantic Championship officially began in 1974. The series has a rich 28-year history of providing one of the most recognized stepping stones to a career in international motorsports competition. Notable racers such as Bobby Rahal and Danny Sullivan were the stars in the late 1970's, followed by:

- Jaques Villeneuve
- Jimmy Vasser
- Michael Andretti
- Richie Hearn
- Patrick Carpentier
- Alex Barron
- Memo Gidley
- Alex Tagliani

In 1989, Toyota Motor Sales, USA joined the series as title sponsor, creating the Toyota Atlantic Championship. With the introduction of the race-tuned Toyota 4A-GE engine, Toyota along with their partner, TRD, USA, Inc. set the standard for Atlantic competition worldwide. The Yokohama Tire Corporation also joined the series in 1989 as an associate sponsor and tire supplier to the series.

The growth of the series over the past decade and the successes of Atlantic alumni in professional motorsports have elevated the Atlantic Championship to the highest levels of prestige and stature within the motorsports industry. This will only continue as on January 17, 2001, Toyota Motor Sales USA, Inc. announced that it had extended its contract with the Atlantic Championship for three more years carrying its support through the 2003 season. In addition, the Yokohama Tire Corporation has also extended its sponsorship for the same period of time.

As with the Indy Lights series, at certain venues, the series receives a sanction fee from the promoter for staging an Atlantic event. Other revenue growth can be created through packaged sponsorships with our race series,

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

additional Atlantic series specific sponsorships and sanction fees.

Throughout the 2001 twelve-race season, the Atlantic drivers will contest on a variety of courses in the United States and Canada, including 10 races with the CART FedEx Championship, one stand alone event at the historic Grand Prix Trois-Rivieres in Quebec, plus appearing as a support race for the F1 Canadian Grand Prix in Montreal. As with all CART series, drivers must

17

18

master racing on ovals, temporary street circuits, and permanent road courses. All Atlantic races are sprint events, between 60-100 miles (100-161 km) long.

SKIP BARBER

In 2001, we entered into a multi-year agreement with Skip Barber Racing School, Inc. ("Barber"). The purpose of the agreement is to promote racing from the grassroots-level up and to provide several rungs to CART's ladder system, all the way from karting through to professional racing. Together, we are co-branding a series of scholarships totaling over one million dollars, designed to assist talented drivers through the ranks, and we are working together to promote drivers' careers through the professional series.

Barber organizes several amateur-level racing series, including the Formula Dodge National Championship presented by RACER; the Skip Barber Race Series, consisting of 4 regional racing series; and the Skip Barber Racing School, which provides competitions in Formula Dodge cars. Barber also runs the world renowned Skip Barber Driving School, which operates from several centers around the United States. Each of these organizations will now become "official" race series and schools of the CART Championship, and provide a clear path for drivers from their first experiences in racing to the FedEx Championship Series.

Barber also organizes the Barber Dodge Pro Series, which becomes the "official entry-level professional racing series of the CART Championship". This series has traditionally provided drivers to the Toyota Atlantic Series and the Dayton Indy Lights Series, and we now sanction their race events. The Barber Dodge Pro Series races a 12-race season around the United States, including many of our CART Championship venues.

We do not own an equity stake in Barber, and the agreement does not have a material effect on our financial position.

SANCTION FEES

For each race in the CART Championship, we enter into a multi-year sanction agreement with the promoter, which provides the payment of a sanction fee to CART. For the year ended December 31, 2000, promoters paid us sanction fees of approximately \$38.9 million, an average of \$1.9 million per event, representing approximately 52% of our revenues. For the year ended December 31, 1999, promoters paid us sanction fees of approximately \$35.7 million, averaging \$1.8 million per event and representing approximately 52% of our total revenues.

International events typically have higher sanction fees than events in North America. So, as we have expanded internationally, our average sanction fee has increased. Additionally, as we grow our sport, the opportunity to grow our sanction fees may rise both by increases in sanction fees to reflect increased value and by the inclusion of new international and domestic race venues. We also believe that the popularity of the CART Championship will provide

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

additional domestic and international race venues willing to pay sanction fees higher than our current average sanction fee. However, when we determine our race venues, we consider many factors such as the market, the history, promoter stability, racing facilities and our race mix and do not solely determine our race venues based upon sanction fees.

RACING EVENTS

When staging a CART event, we provide all aspects of race management necessary to "manufacture" the race event, including the required expertise and personnel. We provide these race management services to track promoters in exchange for the sanction fee.

As competition, support and interest in the CART Championship have increased, we have increased the number of events we stage each race season. The 1979 CART Championship was comprised of 13 race events. In 2000, we managed 20 races - 15 in the United States, two in Canada and one each in Australia, Brazil and Japan. These races included:

- two superspeedway races
- seven oval races
- seven temporary road course races
- four permanent road course races

In 2000, the Indy Lights Championship was comprised of 12 races. In 2001, the Indy Lights Championship will include 12 races, nine held in conjunction with CART events and three held in conjunction with the IRL.

In 2000, the Atlantic Championship was comprised of 12 races. In 2001, the Atlantic Championship will consist of 12 races, with one "stand alone" event and one race in conjunction with a Formula One race.

In the following table, we have provided the locations and venues for the 2001 CART Championship, Indy Lights Championship and Atlantic Championship, as well as the event dates for the 2001 seasons and a description of the racing circuit:

LOCATION	CART EVENT DATES	INDY LIGHTS RACE	ATLANTIC RACE
-----	----	----	----
Monterrey, Mexico Fundidora Park	3/11	Yes	No
Long Beach, California Long Beach	4/8	Yes	Yes
Fort Worth, Texas Texas Motor Speedway	4/29	Yes	No
Nazareth, Pennsylvania	5/6	No	Yes

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

Nazareth Speedway			
Motegi, Japan Twin Ring Motegi	5/19	No	No
West Allis, Wisconsin The Milwaukee Mile	6/3	Yes	Yes
Detroit, Michigan The Raceway on Belle Isle	6/17	No	No
Portland, Oregon Portland International Raceway	6/24	Yes	No
Cleveland, Ohio Burke Lakefront Airport	7/1	No	Yes
Toronto, Ontario, Canada Canadian National Exhibition Place	7/15	Yes	Yes
Brooklyn, Michigan Michigan Speedway	7/22	No	No
Cicero, Illinois	7/29	No	Yes

19

20

Chicago Motor Speedway				
Lexington, Ohio Mid-Ohio Sports Car Course	8/12	Yes	No	2.
Elkhart Lake, Wisconsin Road America	8/19	No	Yes	4.
Vancouver, British Columbia, Canada Concord Pacific Place	9/2	No	Yes	1.
Lausitz, Germany EuroSpeedway	9/15	No	No	2.
Corby, England Rockingham Motor Speedway	9/22	No	No	1.
Houston, Texas Houston	10/7	No	Yes	1.
Monterey, California Laguna Seca Raceway	10/14	Yes	Yes	2.
Gold Coast, Queensland, Australia Surfers Paradise, Queensland	10/28	No	No	2.
Fontana, California California Speedway	11/4	Yes	No	2.

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

Montreal, Canada (6/9) Circuit Gilles-Villeneuve	--	No	Yes	2.
Trois Rivieres, Canada (8/5) Grand Prix Player's de Trois Rivieres	--	No	Yes	1.
Kansas City, Kansas (7/8) Kansas Speedway	--	Yes	No	1.
Madison, Illinois (8/26) Gateway International Speedway	--	Yes	No	1.
Joliet, Illinois (9/2) Chicagoland Speedway	--	Yes	No	1.

DRIVERS

During the 2000 season, 31 drivers competed in at least one of the CART race events, including past champions:

- Michael Andretti
- Juan Montoya
- Jimmy Vasser

In the following table, we have provided information regarding each of the drivers who are expected to participate in the 2001 CART Championship:

DRIVER -----	BIRTH PLACE -----	2001 RACE TEAM -----
MICHAEL ANDRETTI*	Bethlehem, Pennsylvania	Team Motorola
Kenny Brack	Arvika, Sweden	Miller Team Rahal
Patrick Carpentier	Ville Lasalle, Quebec, Canada	Player's Forsythe Racing
Helio Castroneves	Sao Paulo, Brazil	Marlboro Team Penske
Cristiano da Matta	Bela Horizonte, Brazil	Newman/Haas Racing
GIL DE FERRAN*	Paris, France	Marlboro Team Penske
Scott Dixon	Brisbane, Australia	PacWest Racing Group
Adrian Fernandez	Mexico City, Mexico	Fernandez Racing
Christian Fittipaldi	Sao Paulo, Brazil	Newman/Haas Racing
Dario Franchitti	Edinburgh, Scotland	Team KOOL Green

Luiz Garcia, Jr.	Brasilia, Brazil	Dale Coyne Racin
Mauricio Gugelmin	Joinville, Brazil	PacWest Racing G
Bryan Herta	Warren, Michigan	Zakspeed/Forsyth
Michel Jourdain, Jr.	Mexico City, Mexico	Herdez/Bettenhau
Bruno Junqueira	Belo Horizonte, Brazil	Target Chip Gana
Tony Kanaan	Salvador, Bahia, Brazil	Mo Nunn Racing

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

Michael Krumm	Reutlingen, Germany	Dale Coyne Racin
Nicolas Minassian	Marseille, France	Target Chip Gana
Roberto Moreno	Rio de Janeiro, Brazil	Patrick Racing
Shinji Nakano	Toyko, Japan	Fernandez Racing
Max Papis	Como, Italy	Miller Team Raha
Oriol Servia	Pals, Spain	Sigma Autosport
Alexandre Tagliani	Lachenaie, Quebec, Canada	Player's Forsyth
Toranasuke Takagi	Shizuka, Japan	Walker Racing
Paul Tracy	Scarborough, Ontario, Canada	Team KOOL Green
JIMMY VASSER*	Canoga Park, California	Patrick Racing
Max Wilson	Hamburg, Germany	Arciero/Brooke R
ALEX ZANARDI*	Bologna, Italy	MoNunn Racing

* Indicates past champion of the CART Championship.

CORPORATE SPONSORS

We receive sponsorship revenues pursuant to sponsorship contracts. In exchange for sponsorship revenues, we provide our sponsors the opportunity to receive brand and product exposure. For the year ended December 31, 2000, we received sponsorship revenues of approximately \$21.1 million, representing approximately 28% of our total revenues. For the year ended December 31, 1999, we received sponsorship revenues of approximately \$19.2 million, representing approximately 28% of our total revenues.

We believe that as we expand the audience for our events, we will see a corresponding increase in sponsorship opportunities and sponsorship revenues. In addition, we have taken a different approach to selling sponsorship from other motorsports organizations by integrating the rights of the sanctioning body and the race tracks. This approach provides series-wide exclusivity and a centralized sponsorship program which increases the value and appeal of the sponsorship opportunity. MCI was the first such integrated sponsor, becoming the Official Communications Company in 1997. Federal Express also became an integrated sponsor as our official co-series sponsor in 1998.

Beginning with the 1998 race season, Federal Express became the co-series sponsor of the CART Championship, which has been officially designated the "FedEx Championship Series." Under our agreement, Federal Express acquired a comprehensive range of marketing benefits, as well as opportunities to supply services to CART, our teams and our race promoters. A significant feature of this sponsorship arrangement is the combination of the marketing rights of both CART and our race promoters to provide an exclusive sponsorship involvement through the entire CART Championship.

In 1998, we entered into a nine-year agreement with ISL Worldwide ("ISL"). Under the agreement, we appointed ISL as our exclusive worldwide marketing agent for the sale of all sponsorship. As of February 2001, ISL is no longer our marketing agent. We are now handling our sponsorship program in-house.

We have listed below some of our most significant sponsors for the 2001 CART Championship:

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

SPONSOR -----	OFFICIAL DESIGNATION -----
Federal Express	Official Series Sponsor
Worldcom	Official Communications Company
Craftsman Tools	Official Hand Tools
Featherlite Trailers and Vantare Coach	Official Trailer and Coach
Ford SVO Technology	Official Safety Technology Provider
Holmatro	Official Rescue Tool
Honda Motorcycles	Official Motorcycle
Honda Power Equipment	Official Power Equipment
K&K Insurance	Official Insurance Provider
Motorola	Official Communications Hardware
PPG Industries	Official Automotive Paint and Refinishing Supplier
Racing Radios	Official Two-Way Radio
Simple Green	Official Cleaner and Degreaser/Primary Sponsor of CART Safety Team
Toyota Trucks	Official Truck

In addition to the sponsors listed above, we have entered into various sponsorship agreements with other companies, which supply us with products and services. Official sponsors of the CART Championship pay money and provide products and services to us in return for being designated as an official sponsor. The payment obligations, as well as the amount of advertising exposure and other benefits, vary significantly among sponsors based on the negotiated terms of each sponsorship agreement. No sponsorship agreement provided more than 10% of our revenues during 2000, 1999 or 1998.

ATTENDANCE, VIEWERSHIP AND BROADCAST RIGHTS

ATTENDANCE. CART spectator attendance has grown dramatically in the 1990's, with more than a 50% increase from 1990 to 1998, based upon figures compiled by Goodyear Tire & Rubber Co. Race Reports. However, at the end of the 1998 season, Goodyear ceased compiling attendance figures. The only other known third-party source for this data is Joyce Julius and Associates who publishes Sponsors Report. According to this report, a total of 2.6 million spectators attended our races in 2000, an increase of 3.8% over their reported 1999 cumulative attendance figure of 2.5 million.

VIEWERSHIP. In addition to the spectators at our race events, millions of people around the world watch CART racing on television. According to the Nielsen Season Summary for 2000, an aggregate of 21.9 million gross United States viewers were delivered for the CART races. Total viewership for all races, re-airs and support programming in 2000 was 36.3 million viewers. Our races are televised in 208 countries and territories through terrestrial and satellite broadcasts. Based upon the latest independent study conducted by Sponsorship Research International, the 1998 CART Championship had a cumulative worldwide viewership of 987 million.

BROADCAST RIGHTS. In 1994, we entered into a long-term agreement with ESPN, which was amended in 1996 to extend through 2001. Under the agreement, ESPN provides broadcast coverage of each CART Championship race. In 2000, eight races were broadcast on network television. Our agreement with ESPN states that we receive 50% of the net profits received by ESPN for distribution of the race programs, with an escalating minimum guarantee provision.

We retained the television rights for Brazil, Canada and Australia and entered into exclusive agreements with:

- Fittipaldi U.S.A., Inc. to provide television broadcasts in Brazil of our race events through the 2006 race season
- Molstar for the distribution of television broadcasts in Canada through the 2001 race season
- Gold Coast Motor Events for the distribution of television broadcasts in Australia through the 2000 race season

None of these three agreements represent a material amount of revenue for us.

We are currently in discussions regarding our domestic and international television rights for 2002 and beyond; however we cannot assure you that a new agreement will be reached.

COMPETITION

Our racing events compete not only with other sports and recreational events scheduled on the same dates, but also with racing events sanctioned by various other racing bodies such as the:

- FIA
- NASCAR
- IRL
- USAC
- NHRA
- SCCA
- PSCR
- ARCA

Racing events sanctioned by other organizations are often held on the same dates as CART events, at separate tracks, and compete for corporate sponsorship, attendance as well as television viewership. In addition, we compete with other racing bodies to sanction racing events at various motorsports facilities. We believe that our events are distinguished from the racing events staged by other racing bodies by:

- the quality of the competition
- caliber of the events
- drivers and team owners participating in CART
- speed of the cars

We receive numerous requests to sanction racing events at venues throughout the world. However, we can not assure you that we will maintain or improve our position in light of such competition.

EMPLOYEES

As of December 31, 2000, we had 83 full-time business associates and a roster of approximately 203 people who serve as race officials. We also had numerous volunteers that worked at one or more CART events. None of our business associates are represented by a labor union. We believe that we enjoy a good relationship with our business associates.

PATENTS AND TRADEMARKS

We have various registered and common law trademark rights to "CART" and

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

related logos. We have licenses from various drivers, teams, tracks and industry sponsors to use names

23

24

and logos for merchandising programs and product sales. Our policy is to vigorously protect our intellectual property rights to maintain our proprietary value in merchandise and promotional sales.

ITEM 2: PROPERTIES

We lease our buildings in Troy, Michigan and Highland Park, Illinois. We do not own any real property. Our leases are through the following dates:

- Michigan, January 31, 2002
- Michigan, May 31, 2002
- Illinois, May 31, 2001

Our lease payments have no material effect on our consolidated financial statements. We believe the leased space is adequate for our present needs.

ITEM 3: LEGAL PROCEEDINGS

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, under the caption RUBEN JORGE RODRIGUEZ SALIDIAS, LEGAL HEIR TO GONZOLO RODRIGUEZ; LILLIAN BONGOL - RODRIQUEZ, LEGAL HEIR TO GONZOLO RODRIGUEZ, PLAINTIFF(S), VS. SPORTS CAR RACING ASSOCIATION OF MONTEREY PENINSULA (SCRAMP); CHAMPIONSHIP AUTO RACING TEAM [SIC] (CART); ET AL., DEFENDANT(S), Case No. M 50527. This lawsuit was filed by the heirs of Gonzolo Rodriguez, a race car driver that 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 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, under the caption JEANNIE L. REEVES, AS SPECIAL ADMINISTRATOR OF THE ESTATE OF GREGORY WILLIAM MOORE AND RICHARD OAU MOORE, INDIVIDUALLY, PLAINTIFFS, VS. INTERNATIONAL SPEEDWAY CORPORATION, INC., CHAMPIONSHIP AUTO RACING TEAMS, INC., CALIFORNIA SPEEDWAY CORPORATION ALSO D.B.A. PENSKE CALIFORNIA SPEEDWAY, PENSKE MOTORSPORTS, INC. ALSO D.B.A. PENSKE SPEEDWAYS, FINK, ROBERTS & PETRIE, INC. AND DONNA MAE MOORE, ET AL., DEFENDANTS, Case No. SCVSS 71858. This lawsuit was filed by the estate of Greg Moore, a race car driver that died on October 31, 1999 while driving his race car at the California Speedway during the CART race event. The suit seeks actual and punitive damages from the Company in an unspecified amount for breach of duty, wanton and reckless misconduct, breach of implied contract, battery, wrongful death and negligent infliction of emotional distress.

We intend to vigorously defend ourselves in each of these lawsuits, and we do not believe that we are liable for either of these incidents. We require each promoter to indemnify us against any liability for personal injuries sustained at such promoter's racing event. In addition, we require each promoter to carry liability insurance, naming us as a named insured. We also maintain liability insurance to cover racing incidents. Management does not believe that the outcome of these lawsuits will have a material adverse affect on our financial position or future results of operations.

On February 28, 2001, we filed a lawsuit against ISL Marketing AG in the Circuit Court for the County of Oakland, State of Michigan under the caption CHAMPIONSHIP AUTO RACING TEAMS, INC. VS. ISL MARKETING AG, Case No. 01029906-CK. The lawsuit alleges fraudulent inducement, breach of agreement and failure to pay more than \$6 million dollars due to our company.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is authorized for trading on the New York Stock Exchange under the trading symbol "MPH". As of March 20, 2001, we had 15,765,467 shares of common stock outstanding and approximately 401 record holders of our common stock.

In the following table we have provided the high and low closing sales price for our common stock, as reported by the NYSE for each calendar quarter of 2000 and 1999.

QUARTER ENDED	HIGH	LOW

2000		
First Quarter	\$22.56	\$18.25
Second Quarter	27.00	18.50
Third Quarter	28.00	22.56
Fourth Quarter	25.13	19.19
1999		
First Quarter	\$29.38	\$25.56
Second Quarter	35.19	27.44
Third Quarter	33.94	26.00
Fourth Quarter	25.75	19.25

We have not declared or paid any dividends on our common stock to date, and we do not intend to pay dividends in the foreseeable future.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

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

The following selected consolidated financial data as of and for the five years ended December 31, 2000 are derived from our audited consolidated financial statements. The selected consolidated financial data below should be read in combination with our consolidated financial statements and related notes contained elsewhere in this document and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	YEAR ENDED DECEMBER 31,			
	2000	1999	1998	1997
	----	----	----	----
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
STATEMENT OF OPERATIONS:				
Revenues:				
Sanction fees	\$38,902	\$35,689	\$30,444	\$24,248
U.S. 500(1)	--	--	--	--
Sponsorship revenue	21,063	19,150	16,388	7,221
Television revenue	5,501	5,018	5,148	5,604
Engine leases, rebuilds and wheel sales	2,122	2,054	2,214	--
Other revenue	7,460	6,865	8,336	4,372
	-----	-----	-----	-----
Total revenues	75,048	68,776	62,530	41,445
Expenses:				
Race and franchise fund distributions(2)	15,370	15,334	15,183	28,939
U.S. 500(1)	--	--	--	--
Race expenses(2)	9,869	6,670	4,818	6,970
Costs of engine rebuilds and wheel sales	652	610	633	--
Administrative and indirect expenses(2)	22,517	20,646	20,658	14,295
Bad debt (4)	6,320	--	--	--
Compensation expense(3)	--	--	--	12,200
Severance expense (5)	2,758	--	--	--
Depreciation and amortization	1,352	1,048	779	549
Minority interest	--	--	--	(232)
	-----	-----	-----	-----
Total expenses	58,838	44,308	42,071	62,721
Operating income (loss)	16,210	24,468	20,459	(21,276)
Interest income (net)	7,463	5,255	3,198	329
	-----	-----	-----	-----
Income (loss) before income taxes	23,673	29,723	23,657	(20,947)
Income tax benefit (expense)	(8,520)	(10,865)	(8,568)	3,423
	-----	-----	-----	-----
Net income (loss)	\$15,153	\$18,858	\$15,089	\$(17,524)
	=====	=====	=====	=====
Net income (loss) per share:				
Basic	\$.97	\$ 1.22	\$ 1.06	\$ (1.72)
	=====	=====	=====	=====
Diluted	\$.97	\$ 1.19	\$ 1.05	\$ (1.72)
	=====	=====	=====	=====
Weighted average shares outstanding:				
Basic	15,624	15,427	14,190	10,200
	=====	=====	=====	=====
Diluted	15,657	15,908	14,421	10,200

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

	=====	=====	=====	=====
BALANCE SHEET DATA:				
Cash and cash equivalents	\$19,504	\$7,216	\$15,080	\$1,164
Short-term investments	98,206	91,758	61,610	--
Working capital (deficit)	119,953	99,480	72,219	(5,325)
Total assets	144,101	124,887	97,186	12,348
Long-term debt (including current portion)	--	--	314	444
Total stockholders' equity (deficit)	133,894	114,330	86,219	(3,045)

27

28

- (1) In 1996, we staged and acted as promoter of the inaugural U.S. 500. Revenues attributable to the U.S. 500 included sponsorship fees, television, admissions, program sales and other revenues associated with promoting the event. Expenses included, among others, the race purse, track rental, promotional and advertising costs and other expenses necessary to promote the event. We continue to sanction the event, but since 1996 we have not acted as the promoter.
- (2) Expenses for the years ended December 31, 1997 and 1996 include certain payments to franchise race teams, including reimbursement of travel expenses, director fees, purse awards and other race related payments.
- (3) Total expenses for the years ended December 31, 1997 and 1996 include compensation expense of \$12,200,000 and \$1,167,000 which relates to the issuance of Common Stock to franchise members below its fair value on the date the Common Stock became eligible for purchase. You should read "Management's Discussion and Analysis of Financial Condition and Results of Operations," for a discussion of this compensation expense.
- (4) Bad debt expense relates to a charge associated with our sponsorship agreement with ISL Marketing AG, which was payable in January 2001. You should read "Management's Discussion and Analysis of Financial Condition and Results of Operations," for a discussion of this bad debt expense.
- (5) Severance expense relates to an agreement with our former CEO who announced his resignation in June 2000.

28

29

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As you read the following, you should also refer to the consolidated financial statements and related notes as well as Item 6, "Selected Consolidated Financial Data."

GENERAL

Below are selected income and expense items for the years ended December 31, 2000, 1999 and 1998. The percentage calculations are based on total revenues.

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

	YEAR ENDED DECEMBER 31,			
	2000		1999	
	----		----	
	(DOLLARS IN THOUSANDS)			
Revenues:				
Sanction fees	\$ 38,902	51.8%	\$ 35,689	51.9%
Sponsorship revenue	21,063	28.1	19,150	27.8
Television revenue	5,501	7.3	5,018	7.3
Engine leases, rebuilds and wheel sales	2,122	2.8	2,054	3.0
Other revenue	7,460	10.0	6,865	10.0
	-----	-----	-----	-----
Total revenues	\$ 75,048	100.0%	\$ 68,776	100.0%
	=====	=====	=====	=====
Expenses:				
Race distributions	\$ 15,370	20.5%	\$ 15,334	22.3%
Race expenses	9,869	13.1	6,670	9.7
Cost of engine rebuilds and wheel sales	652	0.9	610	0.9
Administrative and other indirect expenses	22,517	30.0	20,646	30.0
Bad debt	6,320	8.4	--	--
Severance expense	2,758	3.7	--	--
Depreciation and amortization	1,352	1.8	1,048	1.5
	-----	-----	-----	-----
Total expenses	58,838	78.4	44,308	64.4
	-----	-----	-----	-----
Operating income	16,210	21.6	24,468	35.6
Interest income (net)	7,463	10.0	5,255	7.6
	-----	-----	-----	-----
Income before income taxes	23,673	31.6	29,723	43.2
Income tax expense	(8,520)	(11.4)	(10,865)	(15.8)
	-----	-----	-----	-----
Net income	\$ 15,153	20.2%	\$ 18,858	27.4%
	=====	=====	=====	=====

REVENUES

Following is an explanation of our individual revenue items:

SANCTION FEES. We receive sanction fees from the promoters of each of the races on the CART Championship schedule, as well as from selected races on the Indy Lights and Atlantics schedule. The fees are based on contracts between the promoters and CART. The contracts have terms which expire between 2002 and 2006. Currently contracted sanction fees range from \$1.0 million to \$4.5 million per event.

SPONSORSHIP REVENUE. We receive corporate sponsorship revenue based on negotiated contracts. We currently have corporate sponsorship contracts with 22 major manufacturing and consumer products companies. The remaining terms of these contracts range from one to three years. An official corporate sponsor receives status and recognition rights, event rights and product category exclusivity.

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

TELEVISION REVENUE. Our television revenue is derived from negotiated contracts with:

- ESPN
- ESPN International
- Fittipaldi USA (Brazil)
- Gold Coast Motor Events Co. (Australia)
- Molstar (Canada)

A guaranteed rights fee is paid to us by each broadcast partner. Based on our contract with ESPN/ESPN International, we receive 50% of the net profits received by ESPN for distribution of the race programs, with an escalating minimum guarantee provision. A provision of the ESPN contract requires that at least 50% of the CART Championship events be broadcast on a major broadcasting network in the United States. In 2000, 1999 and 1998, all CART Championship races were broadcast on either ABC or ESPN. In addition, CART Championship races are re-aired on ESPN and ESPN2. ESPN2 also broadcasts CART Championship qualifying sessions and pre-race shows. In addition, we have received advertising revenue from "Inside CART," our race magazine television show, and from video footage sales.

We are currently in discussions regarding our domestic and international television rights for 2002 and beyond; however we cannot assure you that a new agreement will be reached.

ENGINE LEASES, REBUILDS AND WHEEL SALES. ARS, which operates the Indy Lights Series, owns the engines that are used in the series and leases the engines to the competitors for the season. The teams pay us a fee to rebuild the engines. We also sell the wheels used on the race cars. Based on the rules of the series, all teams are required to use our engines and wheels.

OTHER REVENUE. Other revenue includes membership and entry fees, contingency awards money, royalties, commissions and other miscellaneous revenue items. Membership and entry fees are payable on an annual basis by CART, Indy Lights and Atlantic Championship competitors. In addition, we charge fees to competitors for credentials for all team participants and driver license fees for all drivers competing in the series. We receive royalty revenue for the use of the CART servicemarks and trademarks on licensed merchandise that is sold both at tracks and at off-track sites. We receive commission income from the sale of chassis and parts to our support series teams.

EXPENSES

Following is an explanation of the expense line items.

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

- event purse which is paid based on finishing position
- contingency award payments
- year-end point fund

We pay awards to the teams, based on their cumulative performance for the season, out of the year-end point fund.

RACE EXPENSES. We are responsible for officiating and administering all of our events. Costs primarily include officiating fees, travel, per diem and lodging expenses for the following officiating groups:

- medical services

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

- race administration

30

31

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

Overseas event organizers are responsible for costs related to cargo, air passenger travel and lodging for our staff and race participants.

COST OF ENGINE REBUILDS AND WHEEL SALES. These costs are associated with rebuilding the engines and the cost of the wheels used in the Indy Lights series.

ADMINISTRATIVE AND INDIRECT EXPENSES. All operating costs not directly incurred for a specific event, primarily wages, Board of Directors fees and other administrative expenses, are recorded as administrative and indirect expenses.

RESULTS OF OPERATIONS

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

REVENUES. Total revenues for 2000 were \$75.0 million, an increase of \$6.3 million, or 9%, from 1999. This was due to increased sanction fees, sponsorship revenue, television revenue, engine leases, rebuilds and wheel sales and other revenue as described below.

Sanction fees for 2000 were \$38.9 million, an increase of \$3.2 million, or 9%, from 1999. This increase was due to annual sanction fee escalations.

Sponsorship revenue for 2000 was \$21.1 million, an increase of \$1.9 million, or 10%, from 1999. This increase was primarily attributable to an annual escalation of our agreement with ISL Worldwide that guaranteed certain sponsorship income in 2000. Refer to bad debt explanation for an expense related to this revenue.

Television revenue for 2000 was \$5.5 million, an increase of \$483,000, or 10%, from 1999. This increase was due primarily to advertising revenue from our TV Magazine show "Inside CART", and from increased guarantees from our ESPN and Brazil contracts.

Engine leases, rebuilds and wheel sales for 2000 was \$2.1 million, an increase of \$68,000, or 3%, from 1999. This increase was due to having more engine rebuilds and wheel sales compared to the same period in the prior year.

Other revenue for 2000 was \$7.5 million, an increase of \$595,000, or 9%, from 1999. This increase was partially attributable to a \$1.4 million (net of expenses) settlement with Frontier Insurance Company, related to litigation concerning the performance bond issued for the Hawaiian Super Prix, partially offset by a decrease in royalty revenue and membership fees.

EXPENSES. Total expenses for 2000 were \$58.8 million, an increase of \$14.5 million, or 33%, from 1999. This increase was due to higher race payments, race expenses, cost of engine rebuilds and wheel sales, administrative and

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

indirect expenses, bad debt expense, compensation expense and depreciation and amortization as described below.

Race distributions for 2000 were \$15.4 million, an increase of \$36,000, which was comparable to the prior year.

31

32

Race expenses for 2000 were \$9.9 million, an increase of \$3.2 million, or 48%, from 1999. This increase is partially due to the addition of two new departments, Timing and Scoring and Pace Car, and new programs and personnel in the Electronics, Logistics and Safety departments.

Cost of engine rebuilds and wheel sales were \$652,000, an increase of \$42,000, or 7%, from 1999. The increase was due to having more engine rebuilds and part sales in 2000 when compared to 1999.

Administrative and indirect expenses for 2000 were \$22.5 million, an increase of \$1.9 million, or 9% from 1999. The increase was primarily attributable to an increased investment in Public Relations and Marketing and Advertising expenditures. In 2000, the marketing initiatives focused on all CART markets throughout the year; during 1999, the marketing initiatives focused on specific race events.

Bad debt for 2000 was \$6.3 million. The expense resulted from the uncertainty of collectability of guaranteed minimum sponsorship revenues from ISL Marketing AG (ISL) for 2000, which was payable in January 2001. In 1998, ISL signed a nine (9) year contract to become our exclusive marketing agent for solicitation of sponsorship agreements. The contract guaranteed a minimum amount of sponsorship revenue for each year of the agreement. Following discussions with ISL, we determined that ISL does not intend to fulfill its commitment with respect to the remaining years of the agreement under its original terms and collectability of the guarantee for 2000 is uncertain. There was no related expense in 1999.

Severance expense for 2000 was \$2.8 million. This non-recurring expense relates to payments made under a severance agreement with the former President/CEO who resigned June 17, 2000.

Depreciation and amortization for 2000 was \$1.4 million, compared to depreciation and amortization of \$1.0 million for 1999.

OPERATING INCOME. Operating income for 2000 was \$16.2 million, compared to operating income of \$24.5 million for 1999.

INTEREST INCOME (NET). Interest income (net) for 2000 was \$7.5 million, compared to interest income (net) of \$5.3 million for 1999. The increase of \$2.2 million was primarily attributable to interest earned on higher invested balances, the secondary offering in May 1999 and proceeds from additional operating income.

INCOME BEFORE INCOME TAXES. Income before income taxes for 2000 was \$23.7 million, compared to income before income taxes of \$29.7 million for 1999.

INCOME TAX EXPENSE. Income tax expense for 2000 was \$8.5 million, a decrease of \$2.3 million when compared to 1999. The effective tax rate for 2000 was comparable to that in 1999.

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

NET INCOME. Net income for 2000 was \$15.2 million, compared to net income of \$18.9 million in 1999.

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

REVENUES. Total revenues for 1999 were \$68.8 million, an increase of \$6.2 million, or 10%, from 1998. This was due to increased sanction fees and sponsorship fees, partially offset by a reduction in television revenue, engine leases, rebuilds and wheel sales and other revenue as described below.

32

33

Sanction fees for 1999 were \$35.7 million, an increase of \$5.2 million, or 17%, from 1998. This increase was attributable to the addition of a new event in Cicero, Illinois, as well as annual sanction fee escalations for certain other events.

Sponsorship revenue for 1999 was \$19.2 million, an increase of \$2.8 million, or 17%, from 1998. This increase was primarily attributable to an annual escalation of our agreement with ISL Worldwide that guaranteed certain sponsorship income in 1999. New sponsors in 1999 included Motorola, Parke-Davis, Automobile Magazine, Sears Mechanical and Computer Associates.

Television revenue for 1999 was \$5.0 million, a decrease of \$130,000, or 3%, from 1998. This decrease was due primarily to slightly lower revenues on the profit sharing portion of our contract with ESPN.

Engine leases, rebuilds and wheel sales for 1999 was \$2.1 million, a decrease of \$160,000, or 7%, from 1998. This decrease was due to having fewer Indy Lights entries in 1999, due to increased competition with other race series both domestically and internationally. This decrease was also attributed to two fewer Indy Lights races in 1999 compared to 1998.

Other revenue for 1999 was \$6.9 million, a decrease of \$1.5 million, or 18%, from 1998. This decrease was partially attributable to a decrease in membership and credential income, royalties and awards money. The decrease was also attributed to a one time insurance settlement of \$400,000 received in 1998.

EXPENSES. Total expenses for 1999 were \$44.3 million, an increase of \$2.2 million, or 5%, from 1998. This increase was due to higher race payments and race expenses as described below.

Race payments for 1999 were \$15.3 million, an increase of \$151,000, or 1%, from 1998. This increase was due to one additional CART race and two fewer races for Indy Lights and Atlantics when comparing 1999 to 1998.

Race expenses for 1999 were \$6.7 million, an increase of \$1.9 million, or 38%, from 1998. This increase is partially due to one additional CART race and the addition of a new department, Race Operations. The increase was also due to new programs and personnel in the Electronics, Logistics and Safety departments.

Cost of engine rebuilds and wheel sales were \$610,000, a decrease of \$23,000, or 4%, from 1998. The decrease was due to having fewer Indy Lights entries as noted above. This decrease was also attributed to two fewer Indy Lights races in 1999 compared to 1998.

Administrative and indirect expenses for 1999 were \$20.6 million, a

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

decrease of \$12,000 from 1998.

Depreciation and amortization for 1999 was \$1.0 million, compared to depreciation and amortization of \$779,000 for 1998.

OPERATING INCOME. Operating income for 1999 was \$24.5 million, compared to operating income of \$20.5 million for 1998.

INTEREST INCOME (NET). Interest income (net) for 1999 was \$5.3 million, compared to interest income (net) of \$3.2 million for 1998. The increase of \$2.1 million was primarily attributable to interest earned on the invested proceeds from the initial public offering, additional operating income and proceeds from the secondary offering in May 1999.

33

34

INCOME BEFORE INCOME TAXES. Income before income taxes for 1999 was \$29.7 million, compared to income before taxes of \$23.7 million for 1998.

INCOME TAX EXPENSE. Income tax expense for 1999 was \$10.9 million, compared to income tax expense of \$8.6 million for 1998. The effective tax rate for 1999 was comparable to that in 1998.

NET INCOME. Net income for 1999 was \$18.9 million, compared to net income of \$15.1 million in 1998.

SEASONALITY AND QUARTERLY RESULTS

A substantial portion of our total revenues during the race season is expected to remain seasonal, based on our race schedule. Our quarterly results vary based on the number of races held during the quarter. In addition, the mix between the type of race (street course, superspeedway, etc.) and the sanction fees attributed to those races will affect quarterly results. Consequently, changes in race schedules from year to year, with races held in different quarters, will result in fluctuations in our quarterly results and affect comparability. We have provided unaudited quarterly financial data for each of the four quarters of 1999 and 2000 in the following table. The information for each of these quarters is prepared on the same basis as our consolidated financial statements and related notes included elsewhere in this document and include, in the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary to fairly present the data for such periods. You should read this table with "Selected Consolidated Financial Data", and the consolidated financial statements and the related notes included elsewhere in this document.

	QUARTER ENDED				DEC.
	MARCH 31	JUNE 30	SEPT. 30	-----	
	-----	-----	-----	-----	-----
	(DOLLARS IN THOUSANDS)				
Total revenues					
2000	\$7,848	\$24,902	\$27,756		\$14,5
1999	\$7,349	\$25,473	\$24,915		\$11,0
Income (loss) before taxes					

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

2000	\$3,145	\$ 9,512	\$12,199	\$(1,1
1999	\$2,551	\$11,708	\$10,501	\$ 4,9
Number of races				
2001	1	7	9	
2000	1	7	9	
1999	1	8	9	

*We recorded a bad debt expense of \$6.3 million related to a charge associated with our sponsorship agreement with ISL.

LIQUIDITY AND CAPITAL RESOURCES

We have relied on the proceeds from our initial public offering, our secondary offering and cash flow from operations, to finance working capital, investments and capital expenditures during the past year.

Our bank borrowing with a commercial bank consists of a \$1.5 million revolving line of credit. As of December 31, 2000, there was no outstanding balance under the line of credit. The

34

35

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 December 31, 2000 was \$19.5 million, a net increase of \$12.3 million from December 31, 1999. The increase was primarily the result of net cash provided by operating activities of \$16.9 million and net financing activities of \$3.5 million which was partially offset by net cash used in investing activities of \$8.1 million.

We anticipate capital expenditures of approximately \$2.5 million during 2001. We believe that existing cash, cash flow from operations and available bank borrowings will be sufficient for capital expenditures and other cash needs. In addition, we may incur additional expenditures to increase our marketing budget, and expand our TV relationships or otherwise to increase the visibility and appeal of our products.

Subsequent to year end, we canceled the 2001 race in Brazil due to default of our agreement by the City of Rio de Janeiro. The note receivable from our Brazilian promoter was to be repaid in equal annual installments over the life of the sanction agreement. Due to the uncertainty of future races in Brazil, a letter of credit was received from the Brazilian promoter to secure payment of the remaining balance of the note receivable by May 15, 2001.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued by the FASB. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. We have determined that the impact on our consolidated financial statement disclosure is immaterial. SFAS No. 133 is effective January 1, 2001.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

With the exception of historical information contained in this Form 10-K, 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 in Item 1: Business - Risk 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
- liability for personal injuries
- negotiation of television contract
- renewal of sanction agreements

35

36

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK. Our investment policy was designed to maximize safety and liquidity while maximizing yield within those constraints. At December 31, 2000, our investments consisted of corporate bonds, U.S. Agency issues, and repurchase agreements. The weighted average maturity of our portfolio is 263 days.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and related notes are included in Item 14 of this document.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

36

37

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item will be contained in our definitive Proxy Statement for our 2001 Annual Meeting of Stockholders to be filed on or before April 30, 2001, and such information is incorporated herein by reference.

ITEM 11: EXECUTIVE COMPENSATION

Information required by this Item will be contained in our definitive Proxy

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

Statement for our 2001 Annual Meeting of Stockholders to be filed on or before April 30, 2001, and such information is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item will be contained in our definitive Proxy Statement for our 2001 Annual Meeting of Stockholders to be filed on or before April 30, 2001, and such information is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item will be contained in our definitive Proxy Statement for our 2001 Annual Meeting of Stockholders to be filed on or before April 30, 2001, and such information is incorporated herein by reference.

37

38

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- (a) List of Documents Filed as Part of this Report:
 - (1) Consolidated Financial Statements start on page F-1
 - (2) Financial Statement Schedule Schedule II Valuation and Qualifying Accounts is on page S-1
 - (3) Exhibits
 - 3.1 Certificate of Incorporation of the Company filed December 8, 1997 (1)
 - 3.2 Bylaws of the Company (1)
 - 10.1 1997 Stock Option Plan (1) (Exhibit 10.1)
 - 10.2 Director Stock Option Plan (1) (Exhibit 10.2)
 - 10.5 Form of Promoter Agreement (1)
 - 10.6 Promoter Agreement with Wisconsin State Park Speedway related to West Allis, Wisconsin dated June 5, 1996 (1)
 - 10.7 Promoter Agreement with Texaco Houston Grand Prix L.L.C. related to Houston, Texas dated July 28, 1997 (1)
 - 10.11 Form of Sponsorship Agreement (1)
 - 10.15 Promoter Agreement with Ganassi Group, L.L.C. related to Chicago, Illinois dated April 7, 1998 (2)
 - 10.16A Marketing Representation Agreement with ISL Marketing AG dated June 24, 1998 (6)
 - 10.17 Final Agreements for ARS Stock Purchase and BP Asset Purchase dated March 13, 1998 (3)
 - 10.19 Promoter Agreement with Monterrey Grand Prix related to Monterrey, Mexico dated March 30, 2000 (5)
 - 10.20 Promoter Agreement with Rockingham Motor Speedway related to Rockingham, England dated July 3, 2000
 - 23.1 Consent of Deloitte & Touche LLP dated March 20, 2000 for Form S-8 Registration Statement filed on March 23, 1999. (4)
- (b) Reports on Form 8-K
 - A current report on Form 8-K was filed on October 6, 2000, reporting the resignation of the Company's Chief Financial Officer.
- (1) Incorporated by reference to exhibit filed as part of our Registration

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

- (2) Statement on Form S-1 (Registration No. 333-43141)
Incorporated by reference to exhibit filed with our Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.
- (3) Incorporated by reference to exhibit filed with our Annual Report on Form 10-K for the year ended December 31, 1998.
- (4) Incorporated by reference to exhibit filed with our Annual Report on Form 10-K for the year ended December 31, 1999.

38

39

- (5) Incorporated by reference to exhibit filed with our Quarterly Report on Form 10-Q for the quarter ended June 30, 2000.
- (6) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A-1, filed on March 13, 2001.

39

40

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATED: March 27, 2001

CHAMPIONSHIP AUTO RACING TEAMS, INC.

Registrant

By: /s/ Joseph F. Heitzler

Joseph F. Heitzler
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

/s/ Joseph F. Heitzler ----- Joseph F. Heitzler	Chief Executive Officer and Director	March
/s/ Thomas L. Carter ----- Thomas L. Carter	Chief Financial and Accounting Officer	March
/s/ Gerald Forsythe ----- Gerald Forsythe	Director	March
/s/ Floyd R. Ganassi, Jr.	Director	March

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

Floyd R. Ganassi, Jr.
/s/ Barry Green Director March

Barry Green
/s/ Carl A. Haas Director March

Carl A. Haas
/s/ James F. Hardymon Director March

James F. Hardymon
/s/ James Henderson Director March

James Henderson
/s/ U. E. Patrick Director March

U. E. Patrick
/s/ Robert W. Rahal Director March

Robert W. Rahal
/s/ Bert C. Roberts, Jr. Director March

Bert C. Roberts, Jr.

40

41

/s/ Fred T. Tucker Director March

Fred T. Tucker
/s/ Derrick Walker Director March

Derrick Walker

41

42

CHAMPIONSHIP AUTO RACING TEAMS, INC.
CONSOLIDATED FINANCIAL STATEMENTS

PAGE

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

CHAMPIONSHIP AUTO RACING TEAMS, INC.

Independent Auditors' Report.....	F-2
Consolidated Balance Sheets as of December 31, 2000 and 1999.....	F-3
Consolidated Statements of Income for the Years Ended December 31, 2000, 1999 and 1998.....	F-4
Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended December 31, 2000, 1999 and 1998.....	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2000, 1999 and 1998.....	F-6
Notes to Consolidated Financial Statements.....	F-7

F-1

43

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Championship Auto Racing Teams, Inc.:

We have audited the accompanying consolidated balance sheets of Championship Auto Racing Teams, Inc. (the "Company") at December 31, 2000 and 1999, and the related consolidated statements of income, stockholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the Index at Item 14. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Detroit, Michigan
February 23, 2001

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

F-2

44

CHAMPIONSHIP AUTO RACING TEAMS, INC.
 CONSOLIDATED BALANCE SHEETS
 (DOLLARS IN THOUSANDS)

	DECEMBER 31,	
	2000	1999
	----	----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 19,504	\$ 7,2
Short-term investments	98,206	91,7
Accounts receivable (net of allowance for doubtful accounts of \$6,539 and \$250 in 2000 and 1999, respectively)	5,578	8,7
Current portion of notes receivable	2,535	8
Inventory	151	3
Prepaid expenses	567	2
Deferred income taxes	2,485	1
	-----	-----
Total current assets	129,026	109,2
NOTES RECEIVABLE	147	2,4
PROPERTY AND EQUIPMENT- Net	7,327	5,2
GOODWILL (net of accumulated amortization of \$493 and \$299 in 2000 and 1999, respectively)	7,248	7,4
OTHER ASSETS (net of accumulated amortization of \$88 and \$62 in 2000 and 1999, respectively)	353	4
	-----	-----
TOTAL ASSETS	\$ 144,101	\$ 124,8
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,975	\$ 2,1
Accrued liabilities:		
Royalties	162	9
Payroll	1,571	6
Taxes	819	3
Other	1,316	8
Unearned revenue	2,452	4,8
Deposits	778	--
	-----	-----
Total current liabilities	9,073	9,7
DEFERRED INCOME TAXES	1,134	7
COMMITMENTS AND CONTINGENCIES (Note 10)	--	--
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$.01 par value; 5,000,000 shares authorized, none issued and outstanding at December 31, 2000 and 1999	--	--
Common stock, \$.01 par value; 50,000,000 shares authorized, 15,765,467 and 15,586,568 shares issued and outstanding at December 31, 2000 and 1999, respectively	158	1
Additional paid-in capital	103,130	99,6
Retained earnings	29,978	14,8

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

Unrealized gain (loss) on investments	628	(3)
	-----	-----
Total stockholders' equity	133,894	114,3
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 144,101	\$ 124,8
	=====	=====

See accompanying notes to consolidated financial statements.

F-3

45

CHAMPIONSHIP AUTO RACING TEAMS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	YEAR ENDED DEC	
	2000	199
	----	----
REVENUES:		
Sanction fees	\$ 38,902	\$ 35,6
Sponsorship revenue	21,063	19,1
Television revenue	5,501	5,0
Engine leases, rebuilds and wheel sales	2,122	2,0
Other revenue	7,460	6,8
	-----	-----
Total revenues	75,048	68,7
EXPENSES:		
Race distributions	15,370	15,3
Race expenses	9,869	6,6
Cost of engine rebuilds and wheel sales	652	6
Administrative and indirect expenses	22,517	20,6
Bad debt (Note 12)	6,320	
Severance expense (Note 13)	2,758	
Depreciation and amortization	1,352	1,0
	-----	-----
Total expenses	58,838	44,3
OPERATING INCOME	16,210	24,4
Interest income (net)	7,463	5,2
	-----	-----
INCOME BEFORE INCOME TAXES	23,673	29,7
INCOME TAX EXPENSE	(8,520)	(10,8
	-----	-----
NET INCOME	\$ 15,153	\$ 18,8
	=====	=====
EARNINGS PER SHARE:		
BASIC	\$.97	\$ 1.
	=====	=====
DILUTED	\$.97	\$ 1.
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING:		
BASIC	15,624	15,4

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

DILUTED

=====

15,657

=====

=====

15,9

=====

See accompanying notes to consolidated financial statements.

F-4

46

CHAMPIONSHIP AUTO RACING TEAMS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL	RETAINED	UNREALIZED	STO
	SHARES	AMOUNT	PAID-IN	EARNINGS	GAIN (LOSS) ON	(D
	-----	-----	CAPITAL	(DEFICIT)	INVESTMENTS	-----
BALANCES, JANUARY 1, 1998	10,200	\$ 102	\$ 15,975	\$ (19,122)	\$ --	\$
Net income	--	--	--	15,089	--	
Unrealized gain on investments	--	--	--	--	330	
Comprehensive income	--	--	--	--	--	
Stock redemption	(67)	(1)	(150)	--	--	
Stock issuance	5,038	50	73,372	--	--	
Issuance of options	--	--	574	--	--	
BALANCES, DECEMBER 31, 1998	15,171	151	89,771	(4,033)	330	
Net income	--	--	--	18,858	--	
Unrealized loss on investments	--	--	--	--	(652)	
Comprehensive income	--	--	--	--	--	
Stock issuance	272	3	7,264	--	--	
Exercise of options	143	2	2,636	--	--	
BALANCES, DECEMBER 31, 1999	15,586	156	99,671	14,825	(322)	
Net income	--	--	--	15,153	--	
Unrealized gain on investments	--	--	--	--	950	
Comprehensive income	--	--	--	--	--	
Exercise of options	179	2	3,459	--	--	
BALANCES, DECEMBER 31, 2000	15,765	\$ 158	\$ 103,130	\$ 29,978	\$ 628	\$

See accompanying notes to consolidated financial statements.

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

F-5

47

CHAMPIONSHIP AUTO RACING TEAMS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	----	----	----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 15,153	\$ 18,858	\$ 15,089
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,352	1,048	779
Bad debt	6,320	--	--
In-kind revenue	(1,084)	(2)	(69)
Net loss (gain) from sale of property and equipment	(29)	1	92
Deferred income taxes	(2,014)	523	4,823
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable	(3,118)	(4,072)	(1,552)
Inventory	160	(240)	(71)
Prepaid expenses	(305)	69	420
Other assets	117	(160)	24
Accounts payable	(156)	185	56
Accrued liabilities	1,100	(1,407)	(6,532)
Unearned revenue	(2,429)	608	1,921
Deposits	778	--	--
	-----	-----	-----
Net cash provided by operating activities	15,845	15,411	14,980
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of subsidiaries	--	(1,858)	(5,881)
Purchase of investments	(90,255)	(41,181)	(61,280)
Proceeds from sale of investments	84,757	10,381	--
Notes receivable	622	870	(4,125)
Acquisition of property and equipment	(2,353)	(1,035)	(3,533)
Proceeds from sale of property and equipment	235	--	62
Acquisition of trademark	(24)	(43)	(22)
	-----	-----	-----
Net cash used in investing activities	(7,018)	(32,866)	(74,779)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on long-term debt	--	(314)	(130)
Redemption of common stock	--	--	(151)
Issuance of common stock (net of underwriting discount and offering costs)	3,461	9,905	73,996
	-----	-----	-----
Net cash provided by financing activities	3,461	9,591	73,715
	-----	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,288	(7,864)	13,916
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7,216	15,080	1,164
	-----	-----	-----
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 19,504	\$ 7,216	\$ 15,080

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

SUPPLEMENTAL DISCLOSURES OF CASH

FLOW INFORMATION:

Cash paid during the year for:

Income taxes	\$ 8,934	\$ 11,046	\$ 2,350
Interest	\$ --	\$ 24	\$ 31

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES--During 2000, 1999 and 1998, the Company received property and equipment worth approximately \$1.1 million, \$2,000 and \$69,000 respectively, in exchange for sponsorship privileges to the providers. During 1998, the Company recorded \$496,000 as goodwill related to the additional purchase price of ARS (see Note 2). During 1998, the acquisition price of ARS included 100,000 options granted to the sellers. The value of these options on the date of grant was \$574,000. In 1999, the amount received by the Company for the options was approximately \$504,000 (see Note 2).

See accompanying notes to consolidated financial statements.

F-6

48

CHAMPIONSHIP AUTO RACING TEAMS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

PRINCIPLES OF CONSOLIDATION. The consolidated statement of income includes the operations of the Company, CART and its wholly-owned subsidiary corporations CART Properties, Inc. and CART Licensed Products, Inc. In addition, the 1998 consolidated statements of income includes the financial statements of CART Licensed Products, L.P., a 55% owned subsidiary. As of March 13, 1998 and April 1, 1998, the consolidated statement of income also includes the operations of American Racing Series, Inc. ("ARS") and Pro-Motion Agency Ltd. ("Pro-Motion"), respectively, wholly-owned subsidiaries of the Company (see Note 2). Effective January 1, 1999, the Company purchased the 45% minority interest of CART Licensed Products, L.P. for \$900,000. The partnership was terminated and the assets of the partnership were rolled up in CART Licensed Products, Inc. All

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

significant intercompany balances have been eliminated in consolidation.

OPERATIONS. The Company is the sanctioning body responsible for organizing, marketing and staging each of the racing events for the open-wheeled motorsports series -- the CART Championship. The Company stages events at four different types of tracks, including superspeedways, ovals, temporary road courses and permanent road courses, each of which require different skills and disciplines from the drivers and teams.

Substantially all of the Company's revenue is derived from sanction fees, sponsorship revenues, television revenues, engine leases, rebuilds and wheels sales and licensing royalties, each of which is dependent upon continued fan support and interest in CART race events. Sanction fee revenues are fees paid to the Company by track promoters to sanction a CART event at the race venue and to provide the necessary race management. The Company receives sponsorship revenues from companies who desire to receive brand and product exposure in connection with CART races. Pursuant to broadcast agreements, the Company generates revenues for the right to broadcast the races, with revenues based upon viewership with a minimum guarantee. The Company receives revenue from engine leases and rebuilds and wheel sales from teams racing in the Indy Lights Championship ("Indy Lights"). The Company also receives revenues from royalty fees paid for licenses to use servicemarks of the

F-7

49

Company, various drivers, teams, tracks and industry sponsors for merchandising programs and product sales.

INVENTORY. Inventory consists of wheels, parts and merchandise, which are stated at the lower of cost or market on a first-in, first-out basis.

PROPERTY AND EQUIPMENT. Property and equipment are stated at cost and are depreciated using the straight-line and accelerated methods over their estimated useful lives which range from 3 to 20 years. Leasehold improvements are amortized over the life of the related leases.

REVENUE RECOGNITION. Recognition of revenue from race sanction agreements is deferred until the event occurs. Sponsorship revenue and engine lease revenue are recognized ratably over the period covered by the agreement. Non-cash sponsorship revenue, such as vehicles or equipment received in exchange for sponsorship privileges to the providers, is recognized when it is received. Television revenue is recognized ratably over the race schedule. Engine rebuilds and wheel sales are recognized when the product is delivered to the customer. Other revenues include membership and entry fees, contingency awards money and royalty income. Membership and entry fees and contingency award money are recognized ratably over the race schedule. Royalty income is recognized as the related product sales occur or on a monthly basis based on a minimum guarantee.

CASH AND CASH EQUIVALENTS. Cash and cash equivalents include investments with original maturities of three months or less at the date of original acquisition.

SHORT-TERM INVESTMENTS. The Company's short-term investments are categorized as available-for-sale, as defined by Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Unrealized holding gains and losses are reflected as a net amount in a separate component of stockholders' equity until realized. For the purpose of computing realized gains and losses, cost is identified on a

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

specific identification basis.

GOODWILL. Goodwill represents the excess of the purchase price of ARS and B.P. Automotive, Ltd. ("BP") and Pro-Motion (see Note 2) over the fair value of the net tangible and identifiable intangible assets of these acquisitions. Also included in goodwill is the purchase of the 45% minority interest of CART Licensed Products, L.P.. Goodwill is stated at cost and is amortized on a straight-line basis over 40 years. The Company assesses goodwill for impairment under Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of." Under those rules, goodwill associated with assets acquired in a purchase business combination is included in impairment evaluations when events or circumstances exist that indicate the carrying amount of those assets may not be recoverable. No reduction of goodwill for impairment was necessary in 2000 or in previous years.

MANAGEMENT ESTIMATES. The preparation of the consolidated 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 and disclosure of contingent assets and liabilities at December 31, 2000 and 1999, and the reported amounts of revenues and expenses during the periods presented. The actual outcome of the estimates could differ from the estimates made in the preparation of the consolidated financial statements.

F-8

50

ACCOUNTING PRONOUNCEMENTS. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company will adopt SFAS 133 effective January 1, 2001. Management does not expect the adoption of SFAS 133 to have a significant impact on the financial position, results of operations, or cash flows of the Company.

RECLASSIFICATIONS. Certain reclassifications have been made to the 1999 and 1998 consolidated financial statements in order for them to conform to the 2000 presentation.

2. PUBLIC OFFERINGS AND ACQUISITIONS

INITIAL PUBLIC OFFERING. In March 1998, the Company completed its initial public offering ("IPO") of 5,038,000 shares of common stock. The IPO provided proceeds of \$75.0 million, net of underwriting discounts, to the Company. A portion of the net proceeds from the IPO were used to acquire ARS and BP for \$10 million (see "Acquisition of ARS and BP"); and to pay accrued point awards to franchise race teams aggregating \$9.5 million. The remaining net proceeds are to be used for working capital and general corporate purposes, including the expansion of the Company's business through the acquisition or development of race related businesses and properties.

SECONDARY OFFERING. In May 1999, the Company completed the registered public offering of 1,816,500 shares of common stock that was sold by certain selling shareholders. In addition, upon exercise of the underwriters' over-allotment option, 272,475 shares of common stock were sold by the Company

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

for \$28.00 per share with net proceeds of approximately \$7.2 million (less underwriting discounts and commissions and offering expenses).

ACQUISITION OF ARS AND BP. On March 13, 1998, the Company acquired 100% of the outstanding common stock of ARS and certain assets of BP, an entity previously owned by a director, race team owner and stockholder. ARS operates Indy Lights, a support series to CART. BP supplies certain equipment to Indy Lights competitors and earns commission income on the sale of chassis and spare parts to the teams. At closing of the acquisition, the Company paid \$7 million in cash and issued options to the sellers to purchase 100,000 shares of the Company's common stock at an exercise price of \$16.00 per share which would vest one year from closing if certain performance criteria were met for 1998. The sellers had the option to make up the shortfall on the 1998 performance criteria to receive the options and elected to do so. The fair value of the options at the date of grant was approximately \$574,000. The sellers paid the shortfall amount of approximately \$504,000 to receive the options.

In addition, the Company will pay an additional purchase price of up to \$3 million, in three equal payments, upon satisfaction by ARS of certain performance criteria during 1998-2000. In the event that ARS does not meet its performance criteria in a given year, the additional payment will be reduced one dollar for every dollar that ARS is short of the performance criteria. However, if ARS exceeds its performance in a following year, it can make up the shortfall from the prior year. Based on 2000, 1999 and 1998 performance criteria, the Company paid the former shareholders of ARS a total of approximately \$0, \$0 and \$1.0 million for 2000, 1999 and 1998, respectively. The excess of the initial

F-9

51

purchase price of \$7 million, plus any additional purchase price payments, over the net book value of the net assets acquired has been allocated to the tangible and intangible assets based on the Company's estimate of the fair market value of the net assets acquired. The operating results of ARS and BP have been included in the Company's consolidated financial statements since the date of acquisition.

ACQUISITION OF PRO-MOTION. On April 10, 1998, the Company acquired 100% of the outstanding common stock of Pro-Motion, an entity previously owned by a director, race team owner and stockholder, for \$534,000 in cash. Pro-Motion operates the Atlantic Championship open-wheel series, a support series to CART. The excess of the initial purchase price over the net book value of the net assets acquired has been allocated to the tangible and intangible assets based on the Company's estimate of the fair market value of the net assets acquired. The operating results of Pro-Motion have been included in the Company's consolidated financial statements since the date of acquisition.

PRO FORMA RESULTS. The following unaudited pro forma summary for the year ended December 31, 1998 assume the acquisitions of ARS, BP and Pro-Motion occurred as of January 1, 1998.

YEAR ENDED
DECEMBER 31, 1998
(IN THOUSANDS,
EXCEPT EARNINGS PER SHARE)

Revenues	\$ 63,863
Net income	15,196
Earnings per share:	
Basic	\$ 1.06

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

Diluted

=====
\$ 1.05
=====

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 at December 31:

(IN THOUSANDS)	COST	FAIR VALUE	GROSS UNREALIZED	
			GAIN	LOSS
2000				
Corporate bonds	\$ 1,502	\$1,507	\$ 5	\$ --
U.S. agencies securities	96,076	96,699	623	--
Total short-term investments	\$97,578	\$98,206	\$ 628	\$ --
1999				
Commercial paper	\$ 35,936	\$ 35,941	\$ 5	\$ --
Municipal bonds	21,598	21,494	--	104
Corporate bonds	19,047	18,891	--	156
U.S. agencies securities	11,500	11,432	--	68
Certificate of Deposit	3,999	4,000	1	--
Total short-term investments	\$ 92,080	\$ 91,758	\$ 6	\$ 328

F-10

52

Proceeds from sales of investments were approximately \$95.1 million and \$10.4 million in 2000 and 1999, respectively. In 2000 and 1999, gross gains and losses on such sales were not significant.

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

4. NOTE RECEIVABLE

In May 1998, the Company entered into an agreement with a promoter whereby the Company provided financing for certain expenses associated with a CART sanctioned event in Brazil. The original amount of the note receivable of \$4.1 million related to costs incurred by the Company during the 1998 event was to be repaid in five equal annual installments of \$819,000 over the life of the sanction agreement through the year 2003. Subsequent to December 31, 2000, the Company canceled the 2001 race in Brazil due to the default by the City of Rio de Janeiro in its agreement with the Company. The note receivable from the Brazilian promoter was to be repaid in equal annual installments over the life of the sanction agreement. Due to the uncertainty of future races in Brazil, a

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

letter of credit was received from the Brazilian promoter to secure payment of the remaining balance of the note receivable by May 15, 2001.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	(IN THOUSANDS)	
	2000	1999
	-----	-----
Engines	\$ 2,397	\$ 2,296
Equipment	4,448	3,037
Furniture and fixtures	405	396
Vehicles	3,562	2,240
Other	230	181
	-----	-----
Total	11,042	8,150
Less accumulated depreciation	(3,715)	(2,922)
	-----	-----
Property and equipment (net)	\$ 7,327	\$ 5,228
	=====	=====

During 2000 and 1999, the Company received vehicles worth approximately \$1.1 million and \$2,000, respectively, in exchange for sponsorship privileges to the providers. The revenues associated with these vehicles are included in sponsorship revenue and other revenue.

6. OPERATING LEASES

The Company has entered into various non-cancelable operating leases for office space and equipment which expire through 2005. Total rent expense for these operating leases was approximately \$649,000, \$483,000 and \$431,000 for 2000, 1999 and 1998, respectively.

F-11

53

Approximate future minimum lease payments under noncancelable operating leases are as follows:

	(IN THOUSANDS)
Year ending December 31:	
2001	\$ 456
2002	162
2003	11
2004	6
2005	5

Total	\$ 640
	=====

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

7. INCOME TAXES

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Realization of the Company's deferred tax assets is dependent on generating sufficient taxable income. Although realization is not assured, management believes it is more likely than not that all of the deferred tax assets will be realized.

The tax effects of temporary differences giving rise to deferred tax assets and liabilities at December 31 are as follows:

	2000	
	----	(IN THOUSAN
Deferred tax assets (liabilities):		
Allowance for doubtful accounts	\$ 2,457	
Net capital loss carryforwards	66	
State taxes	(38)	

Total	2,485	
Current portion	2,485	

Non-current portion	\$ --	
	=====	
Deferred tax liabilities:		
Basis difference in fixed assets	\$ (842)	
Amortization of goodwill	(292)	

Total	(1,134)	
Current portion	--	

Non-current portion	\$ (1,134)	
	=====	

F-12

54

The provision for income taxes consists of the following at December 31:

	2000	1999	
	-----	-----	---
		(IN THOUSANDS)	

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

Current	\$ 10,534	\$ 10,342	\$
Deferred	(2,014)	523	
	-----	-----	---
Total	\$ 8,520	\$ 10,865	\$
	=====	=====	====

The reconciliation of income tax expense computed at the U.S. federal statutory tax rate to the Company's effective income tax rate is as follows:

	2000	1999	1998
	-----	-----	-----
Tax at U.S. federal statutory rate	35.0%	35.0%	34.0%
State income tax	1.9	1.9	1.9
Meals and entertainment	0.5	0.3	0.3
Tax exempt interest	(1.2)	(0.7)	--
Other	(0.2)	0.1	--
	-----	-----	-----
Total	36.0%	36.6%	36.2%
	=====	=====	=====

8. EMPLOYEE BENEFIT PLANS

In 1991, the Company began a 401(k) savings plan (the "plan"). Contributions to the plan are in the form of employee salary deferral, subject to discretionary employer-matching contributions. The Company's contributions to the plan were approximately \$95,000, \$90,000 and \$81,000 in 2000, 1999 and 1998, respectively.

9. DEBT

At December 31, 2000 and 1999, the Company had an unused bank line of credit of \$1.5 million. There were no amounts outstanding at December 31, 2000 and 1999. Advances on the line of credit are payable on demand, with interest at the bank's prime rate. The line of credit is secured by the Company's deposits with the bank.

10. COMMITMENTS AND CONTINGENCIES

REVENUE AGREEMENTS. The Company has entered into promoter, sponsorship and television agreements that extend through various dates, with the longest date expiring in the 2006 racing season. Under the promoter agreements, the Company is obligated to sanction CART Championship racing events and provide related race management functions. Under the sponsorship agreements, the Company grants certain corporations official sponsorship status. In return the corporations receive recognition and status rights, event rights and product category exclusivity rights. Television agreements with various broadcast companies include production, sales and worldwide distribution of the Company's events.

INSURANCE. The Company is self-insured for the deductible amount

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

(\$50,000) on an insurance policy which provides accident medical expense benefits for participants of CART sanctioned races. Losses above the deductible amount are covered by the insurance policy.

EMPLOYMENT AGREEMENTS. The Company has employment agreements with several of its officers. The employment agreements expire at various dates through November 2004. Certain of the employment agreements provide for a multiple of the individual's base salary in the event there is a termination of their employment as a result of a change in control in the Company.

LITIGATION. On September 8, 2000, a complaint for damages was filed against the Company by the heirs of Gonzolo Rodriguez, a race car driver that 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 October 30, 2000, a complaint for damages was filed against the Company by the estate of Greg Moore, a race car driver that died on October 31, 1999 while driving his race car at the California Speedway during the CART race event. The suit seeks actual and punitive damages from the Company in an unspecified amount for breach of duty, wanton and reckless misconduct, breach of implied contract, battery, wrongful death and negligent infliction of emotional distress.

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

On February 28, 2001, the Company filed a lawsuit against ISL Marketing AG in the Circuit Court for the County of Oakland, State of Michigan. The lawsuit alleges fraudulent inducement, breach of agreement and failure to pay more than \$6 million dollars due the Company.

11. STOCK OPTION PLAN

In December 1997, the Board of Directors of the Company (the "Board") authorized, and the stockholders of the Company approved, a stock incentive plan for executive and key management employees of the Company and its subsidiaries, including a limited number of outside consultants and advisors, effective as of the completion of the initial public offering ("IPO") (the "Stock Option Plan"). Under the Stock Option Plan, key employees, outside consultants and advisors (the "Participants") of the Company and its subsidiaries (as defined in the Stock Option Plan) may receive awards of stock options (both Nonqualified Options and Incentive Options, as defined in the Stock Option Plan). A maximum of 2,000,000 shares of common stock are subject to the Stock Option Plan. Options granted vest pro-rata over a three-year period. No stock option is exercisable after ten years from the date of the grant, subject to certain conditions and limitations. The purpose of the Stock Option Plan is to provide the Participants (including officers and directors who are also key employees) of the Company and its subsidiaries with an increased incentive to make significant contributions to the long-term performance and growth of the Company and its subsidiaries.

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

F-14

56

In addition, in December 1997, the Board and the stockholders of the Company approved a Director Option Plan permitting the granting of non-qualified stock options ("Director NQSOs") for up to 100,000 shares of common stock to directors of the Company who are neither employees of the Company nor affiliates of a race team which participates in CART race events (an "Independent Director"). Each person who is first elected or appointed to serve as an Independent Director of the Company is automatically granted an option to purchase 10,000 shares of Company common stock. In addition, each individual who is re-elected as an Independent Director is automatically granted an option to purchase 5,000 shares of Company common stock each year on the date of the annual meeting of stockholders. Each of the options automatically granted upon election, appointment or re-election as an Independent Director are exercisable at a price equal to the fair market value of the common stock on the date of grant. In addition, each Independent Director may elect to receive stock options in lieu of any director's fees payable to such individuals.

All Director NQSOs are immediately exercisable upon grant. The exercise price for all options may be paid in cash, shares of common stock of the Company or other property. If an Independent Director dies or becomes ineligible to participate in the Director Option Plan due to disability, his Director NQSOs expire on the first anniversary of such event. If an Independent Director retires with the consent of the Company, his Director NQSOs expire 90 days after his retirement. In no event may a Director NQSO be exercised more than ten years from the date of grant. As of December 31, 2000 and 1999, there were 87,500 and 37,500, respectively, Director NQSOs issued and outstanding.

In addition to the plans described above, 100,000 stock options were issued in connection with the acquisition of ARS and BP (see Note 2).

The following table summarizes information about stock options during 2000, 1999 and 1998 as follows:

	NUMBER OF SHARES	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE FAIR VALUE
Options outstanding December 31, 1997	--	--	--	--
Granted	1,203,100	4.2	\$16.03	\$ 5.74
Exercised	--	--	--	--
Forfeited	(600)	--	16.00	--
Options outstanding December 31, 1998 (15,000 are exercisable)	1,202,500	4.2	16.03	--
Granted	122,750	5.1	27.90	10.99
Exercised	(142,427)	--	16.00	--
Forfeited	(16,535)	--	22.26	--
Options outstanding December 31, 1999 (357,559 are exercisable)	1,166,288	3.4	\$17.20	--
Granted	439,650	9.6	21.28	10.70
Exercised	(178,899)	--	16.00	--
Forfeited*	(721,550)	--	16.26	--
Options outstanding December 31, 2000	705,489	7.6	\$20.99	

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

* 600,000 options were forfeited in exchange for a severance payment made to the Company's former CEO.

F-15

57

The weighted average price of exercisable options at December 31, 2000 was \$22.02. Options outstanding at December 31, 2000 have a range in exercise price from \$16.00 to \$28.94.

At December 31, 2000, 1999 and 1998, an additional 1,223,185, 891,285 and 1,002,500, respectively, shares were reserved for issuance under all Company plans.

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, the Company has calculated pro forma information as if it had determined compensation cost based on the fair value at the grant date for its stock options granted to employees and directors. In accordance with SFAS No.123, the fair value of option grants is estimated on the date of grant using the Black-Scholes option-pricing model for pro forma purposes with the following assumptions used for all grants: expected volatility 27%, expected dividend yield of 0%, risk-free interest rate of 5%, and an expected life of 10 years. Had the Company determined compensation cost based on the fair value at the grant date for its stock under SFAS No.123, net earnings and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

	(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)	
NET EARNINGS -----	2000 -----	1999 -----
As reported	\$15,153	\$18,858
	=====	=====
Pro forma	\$14,433	\$17,142
	=====	=====
DILUTED EARNINGS PER SHARE		
As reported	\$.97	\$ 1.19
	=====	=====
Pro forma	\$.92	\$ 1.08
	=====	=====

12. BAD DEBT

Bad debt expense of \$6.3 million relates to a charge associated with the

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

Company's sponsorship agreement with ISL Marketing AG ("ISL") for 2000, which was payable in January 2001. In 1998, ISL signed a nine (9) year contract to become the Company's exclusive marketing agent for solicitation of sponsorship agreements. The contract guaranteed the Company a minimum amount of sponsorship revenue for each year of the agreement. Following discussions with ISL, it has been determined that ISL does not intend to fulfill its commitment with respect to the remaining years of the agreement under its original terms and collectability of the guarantee for 2000 is uncertain.

13. SEVERANCE EXPENSE

In June 2000, the Company's President/CEO announced his resignation. The former President/CEO entered into a severance agreement where the Company recorded a one-time severance payment of \$2.8 million (\$1.8 million net of tax). As a result of the resignation, a total of 600,000 stock options were forfeited under the Company's stock option plan.

F-16

58

14. 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 performances based on income before income taxes.

(In Thousands)	YEAR ENDED DECEMBER 31,		TOTALS
-----	RACING OPERATIONS	OTHER*	
2000			

Revenues	\$74,425	\$ 623	\$75,048
Interest income (net)	7,447	16	7,463
Depreciation and amortization	1,250	102	1,352
Segment income (loss) before income taxes	24,135	(462)	23,673
1999			

Revenues	\$67,195	\$ 1,581	\$68,776
Interest income (expense) (net)	5,289	(34)	5,255
Depreciation and amortization	960	88	1,048
Segment income before income taxes	29,544	179	29,723
1998			

Revenues	\$61,056	\$ 1,474	\$62,530
Interest income (expense) (net)	3,234	(36)	3,198
Depreciation and amortization	750	29	779

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

Segment income before income taxes 23,657 -- 23,657

*Segment is below the quantitative thresholds for determining reportable segments. This segment is related to the Company's licensing royalties.

Reconciliations to consolidated financial statement totals at December 31 are as follows:

(In Thousands)	2000	1999
-----	-----	-----
Total assets for reportable segment	\$ 143,095	\$ 122,700
Other assets	1,006	2,187
	-----	-----
Total consolidated assets	\$ 144,101	\$ 124,887
	=====	=====
Total liabilities for reportable segment	\$ 9,910	\$ 9,374
Other liabilities	297	1,183
	-----	-----
Total consolidated liabilities	\$ 10,207	\$ 10,557
	=====	=====

59

F-17

Domestic and foreign revenues, which are allocated to each country based on sanction fees, sponsorship revenues and television revenues, for each of the three years ended December 31 were as follows:

(In Thousands)	2000	1999	1998
-----	-----	-----	-----
United States	\$53,261	\$48,518	\$42,105
Canada	7,618	7,037	7,828
Other foreign countries	14,169	13,221	12,597
	-----	-----	-----
Total	\$75,048	\$68,776	\$62,530
	=====	=====	=====

15 EARNINGS PER SHARE

Basic earnings per share ("EPS") excludes dilution and is computed by dividing earnings available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the

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

potential dilution of securities that could share in the earnings. Shares contingently issuable relate to shares that would have been outstanding under certain stock option plans (see Note 11) upon the assumed exercise of dilutive stock options.

	YEAR ENDED DECEMBER 31	
	2000	1999
	----	-----
	(IN THOUSANDS, EXCEPT EARNINGS)	
Net income	\$ 15,153	\$ 18,858
	=====	=====
Basic EPS:		
Weighted average common shares outstanding	15,624	15,427
	=====	=====
Net earnings per common share, basic	\$.97	\$ 1.22
	=====	=====
Diluted EPS:		
Weighted average common shares outstanding	15,624	15,427
Shares contingently issuable	33	481
	-----	-----
Shares applicable to diluted earnings	15,657	15,908
	=====	=====
Net earnings per common share, diluted	\$.97	\$ 1.19
	=====	=====

16. RELATED PARTY TRANSACTIONS

The Company receives sanction fees from promoters affiliated with certain of its directors. Total sanction fee revenue related to these entities for 2000, 1999 and 1998 was approximately \$6.4 million, \$5.6 million and \$8.1 million, respectively. No sanction fees from a single related entity provided more than 10% of the Company's revenues in 2000, 1999, and 1998.

The Company rented track facilities from promoters affiliated with certain of its directors. Total track rental expense related to these entities for 2000, 1999, and 1998 was approximately \$28,000, \$20,000 and \$62,000 respectively.

At December 31, 2000 and 1999, the Company has accounts receivable of approximately \$1.0 million and \$324,000, respectively, due from related parties affiliated with certain of its directors.

F-18

60

The Company receives entry fees and other race-related income to participate in the CART Championship from teams affiliated with certain directors. Such fees received from these certain related parties amounted to \$1.4 million, \$1.2 million and \$1.3 million in 2000, 1999, and 1998, respectively.

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

The Company disburses purse winnings and awards to teams affiliated with certain of its directors. Total purse winnings and awards related to these entities for 2000, 1999 and 1998 were \$10.1 million, \$9.8 million and \$10.8 million, respectively.

The Company paid for at-track rights to promoters affiliated with certain of its directors in order to satisfy contractual obligations with certain sponsors. Total at-track rights related to these entities for 2000, 1999, and 1998 were \$800,000, \$800,000 and \$1.2 million, respectively.

The Company records royalty expense paid to teams and promoters affiliated with certain of its directors. Total royalties for these entities for 2000, 1999, and 1998 were \$69,000, \$378,000 and \$552,000, respectively.

At December 31, 2000 and 1999, the Company has accounts payable and royalties payable of approximately \$237,000 and \$569,000, respectively, due to related parties affiliated with certain directors.

An officer of the Company is a principal in a law firm which received fees for legal services provided to the Company. Such fees amounted to approximately \$172,000, \$126,000 and \$127,000 in 2000, 1999 and 1998, respectively.

17. SUMMARIZED QUARTERLY DATA (UNAUDITED)

Following is a summary of the quarterly results of operations for the years ended December 31, 2000 and 1999.

\$ in thousands, except per share amounts	First	Second	Third	Fourth

2000				

Total revenues	\$7,848	\$24,902	\$27,756	\$14,542
Operating income (loss)	1,650	7,714	10,211	(3,365)
Net income (loss)	2,013	6,124	7,770	(754) *
Basic earnings (loss) per share	.13	.39	.50	(.05)
Diluted earnings (loss) per share	.13	.39	.50	(.05)
1999				

Total revenues	\$7,349	\$25,473	\$24,915	\$11,039
Operating income	1,314	10,328	9,131	3,695
Net income	1,639	7,466	6,564	3,189
Basic earnings per share	.11	.49	.42	.21
Diluted earnings per share	.10	.47	.41	.20

* The Company recorded a bad debt expense of \$6.3 million related to a charge associated with our sponsorship agreement with ISL. (See Note 12)

F-19

61

SCHEDULE II

CHAMPIONSHIP AUTO RACING TEAMS, INC.

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

VALUATION AND QUALIFYING ACCOUNTS
 YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998
 (IN THOUSANDS)

DESCRIPTION -----	BEGINNING OF PERIOD -----	CHARGED TO COSTS AND EXPENSES -----	DEDUCTIONS (1) -----
Allowance for doubtful accounts (deducted from accounts receivable):			
Year Ended December 31, 2000...	\$ 250	\$ 6,546	\$ 257
Year Ended December 31, 1999...	306	90	146
Year Ended December 31, 1998...	--	436	130

(1) Accounts deemed to be uncollectible.