

# SPEEDWAY MOTORSPORTS INC

## FORM 10-Q (Quarterly Report)

Filed 11/13/2001 For Period Ending 9/30/2001

Address	US HIGHWAY 29 NORTH PO BOX 600 CONCORD, North Carolina 28026
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Industry	Recreational Activities
Sector	Services
Fiscal Year	12/31

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2001

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 1-13582*

**SPEEDWAY MOTORSPORTS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

51-0363307  
(I.R.S. Employer  
Identification No.)

5555 Concord Parkway South, Concord, North Carolina 28027  
(Address of principal executive offices) (Zip Code)

(704) 455-3239  
(Registrant's telephone number, including area code)

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

Yes X No \_\_\_\_  
\_\_\_\_\_

As of November 13, 2001, there were 41,767,123 shares of common stock outstanding.

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**PART I - FINANCIAL INFORMATION**

**Item 1. Consolidated Financial Statements.**

**SPEEDWAY MOTORSPORTS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands)

(Unaudited)

	September 30, 2001	December 31, 2000
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents.....	\$ 47,227	\$ 30,737
Accounts receivable.....	24,207	27,850
Notes and other receivables from affiliates.....	25,579	2,583
Prepaid income taxes.....	--	2,946
Inventories.....	18,195	16,487
Prepaid expenses.....	2,663	2,700
	-----	-----
Total Current Assets.....	117,871	83,303
	-----	-----
Property and Equipment, Net.....	813,782	798,481
Goodwill and Other Intangible Assets, Net.....	57,231	59,105
Other Assets:		
Speedway condominiums held for sale.....	4,483	4,419
Notes and other receivables from affiliates.....	7,068	21,214
Notes receivable, other.....	12,180	11,645
Other assets.....	12,306	13,790
	-----	-----
Total Other Assets.....	36,037	51,068
	-----	-----
TOTAL .....	\$1,024,921	\$991,957
	=====	=====

See notes to consolidated financial statements.

**SPEEDWAY MOTORSPORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands)

(Unaudited)

	September 30, 2001	December 31, 2000
	-----	-----
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt.....	\$ 164	\$ 168
Accounts payable.....	9,074	9,683
Deferred race event income, net.....	60,403	72,052
Accrued income taxes.....	17,575	--
Accrued interest.....	2,830	9,591
Accrued expenses and other liabilities.....	13,944	13,689
	-----	-----
Total Current Liabilities.....	103,990	105,183
Long-Term Debt.....	398,770	409,929
Payable to Affiliates.....	3,593	3,911
Deferred Income, Net.....	15,458	17,130
Deferred Income Taxes.....	74,212	74,106
Other Liabilities.....	1,967	2,357
	-----	-----
Total Liabilities.....	597,990	612,616
	-----	-----
Commitments and Contingencies (Notes 2 and 9).....		
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$.10 par value, shares authorized - 3,000,000, no shares issued.....	--	--
Common stock, \$.01 par value, shares authorized - 200,000,000, issued and outstanding - 41,767,000 in 2001 and 41,739,000 in 2000.....	418	417
Additional paid-in capital.....	161,753	161,159
Retained earnings.....	265,207	218,215
Accumulated other comprehensive loss - unrealized loss on marketable equity securities.....	(447)	(450)
	-----	-----
Total Stockholders' Equity.....	426,931	379,341
	-----	-----
<b>TOTAL</b> .....	<b>\$1,024,921</b>	<b>\$991,957</b>
	=====	=====

See notes to consolidated financial statements.

**SPEEDWAY MOTORSPORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended	
	September 30,	
	2001	2000
REVENUES:		
Admissions.....	\$20,147	\$20,677
Event related revenue.....	24,119	19,572
Other operating revenue.....	9,088	11,355
	53,354	51,604
EXPENSES AND OTHER:		
Direct expense of events.....	19,415	18,158
Other direct operating expense.....	9,056	10,102
General and administrative.....	14,160	13,210
Depreciation and amortization.....	8,069	7,996
Interest expense, net.....	6,459	7,120
Concession contract rights resolution (Note 2)	--	3,137
Other income, net.....	(77)	(405)
	57,082	59,318
Loss Before Income Taxes.....	(3,728)	(7,714)
Income Tax Benefit.....	(1,453)	(3,073)
NET LOSS.....	\$(2,275)	\$(4,641)
	=====	=====
Basic Loss Per Share:		
Basic loss per share (Notes 2 and 6).....	\$ (0.05)	\$ (0.11)
	=====	=====
Weighted average shares outstanding.....	41,757	41,668
Diluted Loss Per Share:		
Diluted loss per share (Notes 2 and 6).....	\$ (0.05)	\$ (0.11)
	=====	=====
Weighted average shares outstanding.....	44,332	44,725

See notes to consolidated financial statements.

**SPEEDWAY MOTORSPORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)

(Unaudited)

	Nine Months Ended	
	September 30, 2001	2000
REVENUES:		
Admissions.....	\$109,886	\$112,477
Event related revenue.....	157,147	130,068
Other operating revenue.....	28,756	35,038
	295,789	277,583
OPERATING EXPENSES:		
Direct expense of events.....	104,735	92,075
Other direct operating expense.....	25,339	31,074
General and administrative.....	44,486	39,463
Depreciation and amortization.....	24,646	23,616
Interest expense, net.....	18,637	20,371
Expenses of cancelled CART race (Note 2).....	3,469	--
Concession contract rights resolution (Note 2).....	--	3,137
Other income, net.....	(2,998)	(829)
	218,314	208,907
Income Before Income Taxes and Cumulative Effect of Accounting Change.....	77,475	68,676
Income Tax Provision.....	30,483	27,640
	46,992	41,036
Income Before Cumulative Effect Of Accounting Change.....	46,992	41,036
Cumulative Effect of Accounting Change for Club Membership Fees (Note 2).....	--	(1,257)
NET INCOME.....	\$ 46,992	\$ 39,779
	=====	=====
Basic Earnings Per Share:		
Before cumulative effect of accounting change.....	\$ 1.13	\$ 0.99
Accounting change (Notes 2 and 6).....	--	(0.03)
	\$ 1.13	\$ 0.96
	=====	=====
Weighted average shares outstanding.....	41,747	41,657
Diluted Earnings Per Share:		
Before cumulative effect of accounting change.....	\$ 1.09	\$ 0.96
Accounting change (Notes 2 and 6).....	--	(0.03)
	\$ 1.09	\$ 0.93
	=====	=====
Weighted average shares outstanding.....	44,415	44,767

See notes to consolidated financial statements.

**SPEEDWAY MOTORSPORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

(In thousands)

(Unaudited)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-In Capital	Earnings	Other Comprehensive Loss	Stock- holders' Equity
BALANCE - JANUARY 1, 2001 .....	41,739	\$ 417	\$161,159	\$218,215	\$ (450)	\$379,341
Net income.....	--	--	--	46,992	--	46,992
Net unrealized gain on marketable equity securities.....	--	--	--	--	3	3
Exercise of stock options.....	18	--	392	--	--	392
Issuance of stock under employee stock purchase plan.....	10	1	202	--	--	203
BALANCE - SEPTEMBER 30, 2001 .....	41,767	\$ 418	\$161,753	\$265,207	\$ (447)	\$426,931
	=====	=====	=====	=====	=====	=====

See notes to consolidated financial statements.



**SPEEDWAY MOTORSPORTS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	Nine Months Ended	
	-----	
	September 30,	September 30,
	2001	2000
	-----	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income.....	\$ 46,992	\$ 39,779
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting change.....	--	1,257
Depreciation and amortization.....	24,646	23,616
Amortization of deferred income.....	(3,364)	(866)
Changes in operating assets and liabilities:		
Accounts receivable.....	3,643	2,675
Prepaid and accrued income taxes.....	20,521	21,880
Inventories.....	(1,708)	(3,388)
Accounts payable.....	(609)	(7,460)
Deferred race event income.....	(11,649)	(30,961)
Accrued expenses and other liabilities.....	(6,506)	(6,224)
Deferred income.....	92	597
Other assets and liabilities.....	171	89
	-----	
Net Cash Provided By Operating Activities.....	72,229	40,994
	-----	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on long-term debt.....	(10,801)	(40,090)
Interest rate swap settlement receipt.....	1,600	--
Issuance of stock under employee stock purchase plan.....	203	227
Exercise of common stock options.....	392	107
	-----	
Net Cash Used By Financing Activities.....	(8,606)	(39,756)
	-----	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures.....	(38,356)	(65,920)
Proceeds from sale of property held for sale.....	--	40,000
Purchases of marketable equity securities and other investments.....	(24)	(2,311)
Proceeds from sales of marketable equity securities and distribution from equity method investee.....	632	21
Increase in notes and other receivables.....	(11,459)	(5,757)
Repayment of notes and other receivables.....	2,074	1,207
	-----	
Net Cash Used By Investing Activities.....	(47,133)	(32,760)
	-----	
Net Increase (Decrease) In Cash and Cash Equivalents.....	16,490	(31,522)
Cash and Cash Equivalents At Beginning Of Period.....	30,737	56,270
	-----	
Cash and Cash Equivalents At End Of Period.....	\$ 47,227	\$ 24,748
	=====	=====
<b>SUPPLEMENTAL INFORMATION OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Increase in notes receivable for sale of LVMS Industrial Park and land.....	\$ --	\$ 13,254
	=====	=====

See notes to consolidated financial statements.

The following Notes to Unaudited Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations contain "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Words such as "expects", "anticipates", "approximates", "believes", "estimates", "intends", and "hopes", and variations of such words and similar expressions are intended to identify such forward-looking statements. Such statements reflect management's current views, are based on certain assumptions and are subject to risks and uncertainties. No assurance can be given that actual results or events will not differ materially from those projected, estimated, assumed or anticipated in any such forward-looking statements. Important factors that could result in such differences, in addition to other factors noted with forward-looking statements, include those discussed in Exhibit 99.1 to the Company's fiscal 2000 Annual Report on Form 10-K.

### **Notes to Unaudited Consolidated Financial Statements**

#### **1. DESCRIPTION OF BUSINESS**

The consolidated financial statements include the accounts of Speedway Motorsports, Inc. (SMI) and its wholly-owned subsidiaries, Atlanta Motor Speedway, Inc. (AMS), Bristol Motor Speedway, Inc. (BMS), Charlotte Motor Speedway LLC and subsidiaries a/k/a Lowe's Motor Speedway at Charlotte (LMSC), Nevada Speedway LLC d/b/a Las Vegas Motor Speedway (LVMS), Sears Point Raceway LLC (SPR), Texas Motor Speedway, Inc. (TMS), Speedway Systems LLC d/b/a Finish Line Events and subsidiaries (FLE), Oil-Chem Research Corp. (ORC), Speedway Media LLC d/b/a Racing Country USA (RCU), SoldUSA, Inc., and Speedway Funding Corp. (collectively, the Company).

See Note 1 to the December 31, 2000 consolidated financial statements for further description of the Company's business operations, properties and scheduled events.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the fiscal year ended December 31, 2000 included in its 2000 Annual Report on Form 10-K.

In management's opinion, these unaudited consolidated financial statements contain all adjustments necessary for their fair presentation at interim periods. All such adjustments are of a normal recurring nature.

The results of operations for interim periods are not necessarily indicative of operating results that may be expected for the entire year due to the seasonal nature of the Company's motorsports business.

Revenue Recognition - The Company recognizes revenues and operating expenses for all events in the calendar quarter in which conducted except for major NASCAR and other sanctioned racing events which occur on the last full weekend of a calendar quarter. When major racing events occur on the last full weekend of a calendar quarter, the race event revenues and operating expenses are recognized in the current or immediately succeeding calendar quarter that corresponds to the calendar quarter of the prior year in which the same major racing event was conducted. The Company has adopted this accounting policy to help ensure comparability and consistency between quarterly financial statements of successive years.

AMS hosted an Indy Racing Northern Light Series racing event, and BMS hosted a major NHRA-sanctioned Nationals racing event, in the third quarter of 2000 which were held in the second quarter of 2001. Changes in race schedules at the Company's speedways from time to time lessen the comparability of operating results between quarterly financial statements of successive years.

Surrounding the attacks that occurred on September 11, 2001, the Company cancelled

and rescheduled various racing events at TMS previously scheduled in the third quarter of 2001. NASCAR Craftsman Truck and Indy Racing Northern Light Series racing events originally scheduled on September 15 and 16, 2001 were rescheduled to October 5 and 6, 2001, respectively. Also, one UDTRA Pro Dirt Car Series and two World of Outlaws racing events were cancelled and will not be rescheduled. Advance ticket and other revenues and direct costs associated with the two rescheduled events were deferred at September 30, 2001, and will be recognized when the events are held. As to events not rescheduled, the Company offered refunds of paid tickets and certain other event revenues, and all non-refundable event related costs have been expensed in the current period.

Accounting Change For Club Membership Fees - As reported in the Company's Annual Report on Form 10-K for fiscal 2000, the operating results for the three and nine months ended September 30, 2000 were restated for the effects of retroactive application of an accounting change for net club membership fees. The operating results for the nine months ended September 30, 2000 also reflect the cumulative effect of the accounting change as of January 1, 2000, reducing net income by \$1,257,000 after income taxes of \$824,000, and basic and diluted earnings per share by \$0.03.

Notes Receivable, Other - At September 30, 2001, notes receivable of approximately \$12,180,000 are past their scheduled due date. Management is currently reviewing available recoverability alternatives, and believes property collateralizing such notes receivable is sufficient to ensure full collectibility. As such, no allowance for uncollectible amounts has been recorded.

Speedway Condominiums Held for Sale - The Company has constructed 46 condominiums at AMS and 76 condominiums at TMS, of which 44 and 66, respectively, have been sold or contracted for sale as of September 30, 2001. Speedway condominiums held for sale represent 2 condominiums at AMS and 10 condominiums at TMS which are substantially complete and are being marketed.

Certain TMS condominium sales contracts provided buyers the right to require Company repurchase within three years from the purchase date. Gain recognition was deferred until the buyer's right expired. As of September 30, 2001, all such buyer rights have expired. Aggregate gains approximating \$140,000 and \$2,240,000, before income taxes, were recognized upon expiration of such buyer rights in the three and nine months ended September 30, 2001, and are included in other income. There were no gains recognized in the three and nine months ended September 31, 2000.

Expenses of Cancelled CART Race - A major Championship Auto Racing Teams (CART) racing event originally scheduled at TMS on April 29, 2001 was not conducted as a result of a decision made by CART's sanctioning body. The Company offered refunds of paid tickets and certain other event revenues. Expenses of cancelled CART race of approximately \$3.5 million represent principally associated race event costs which were expensed in the quarter ended June 30, 2001 pending ultimate resolution of recovery. In October 2001, the Company's legal action against CART claiming negligence and breach of contract was settled for approximately \$5.0 million, representing recovery of associated sanction fees, race purse, and various expenses, lost revenues and other damages. The effects of settlement will be recognized in the quarter ending December 31, 2001.

Concession Contract Rights Resolution - In November 1996, the Company acquired certain tangible and intangible assets and the operations of Sears Point Raceway. At that time, a third party enjoyed the contract rights to provide event food, beverage and souvenir merchandising services at SPR whose original contract was to expire in 2004. Since 1998, the Company's subsidiary Finish Line Events has provided such services. In September 2000, the Company reacquired such contract rights for approximately \$3.1 million, including legal and other transaction costs. Management anticipates the present value of estimated net future benefits under the contract rights as of the resolution date exceeded its costs.

Recently Issued Accounting Standards - The Company adopted Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" as of January 1, 2001. SFAS No. 133 established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires, among other things, that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Because the Company had no derivative instruments on January 1, 2001, adoption had no effect on the Company's financial statements or disclosures.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 "Business Combinations" which requires, among other things, the purchase method of accounting for business combinations initiated after September 30, 2001, eliminates the pooling-of-interests method and clarifies the criteria for recording intangible assets separate from goodwill. The Company believes the adoption of SFAS No.141 will have no significant impact on its financial statements.

In July 2001, SFAS No. 142 "Goodwill and Other Intangible Assets" was issued specifying, among other things, that goodwill and other intangible assets with indefinite useful lives will no longer be amortized, but instead will be evaluated for possible impairment at least annually. Under SFAS No. 142, the Company will cease amortizing goodwill, including goodwill from past business combinations, identify appropriate reporting units for purposes of assessing any possible future impairment of goodwill, and assess goodwill for impairment under transitional rules. The Company is required to adopt SFAS No.142 on January 1, 2002 and has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations. Goodwill amortization expense amounted to \$445,000 and \$1.3 million in the three and nine months ended September 30, 2001.

In October 2001, SFAS No. 143 "Accounting for Asset Retirement Obligations" was issued specifying, among other things, the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Because the Company presently does not have asset retirement obligations, adoption is expected to have no significant impact on the Company's financial statements or disclosures.

In October 2001, SFAS No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets" was issued specifying, among other things, the financial accounting and reporting for the impairment or disposal of long-lived assets. The Company is required to adopt SFAS No.144 on January 1, 2002 and has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

Reclassifications - Certain prior year accounts were reclassified to conform with current year presentation.

### 3. INVENTORIES

Inventories as of September 30, 2001 and December 31, 2000 consist of the following components (in thousands):

	September 30, 2001	December 31, 2000
Souvenirs and apparel.....	\$ 9,472	\$ 9,421
Finished vehicles, parts and accessories.....	5,609	4,212
Oil additives, food and other.....	3,114	2,854
	-----	-----
Total.....	\$ 18,195	\$ 16,487
	=====	=====

### 4. PROPERTY AND EQUIPMENT

Construction In Progress - At September 30, 2001, the Company had various

construction projects underway to increase and improve facilities for fan amenities and make other site improvements at each of its speedways. In addition, the Company plans to continue major renovations at SPR, including its ongoing reconfiguration into a "stadium-style" road racing course, adding a significant number of grandstand and hillside terrace seats, adding luxury suites, and improving and expanding concessions, restroom and other fan amenities and facilities. SPR also plans to continue improving and expanding its on-site roads and available parking, reconfiguring traffic patterns and entrances to ease congestion and improve traffic flow. The estimated aggregate cost of capital expenditures in each of 2001 and 2002 will approximate \$55,000,000.

## 5. LONG-TERM DEBT

**Bank Credit Facility** -- The Company has a long-term, secured, senior revolving credit facility with a syndicate of banks led by Bank of America, N.A. as an agent and lender (the Credit Facility). The Credit Facility has an overall borrowing limit of \$250,000,000, with a sub-limit of \$10,000,000 for standby letters of credit, matures in May 2004, and is secured by a pledge of the capital stock and other equity interests of all material Company subsidiaries. Interest is based, at the Company's option, upon (i) LIBOR plus .5% to 1.25% or (ii) the greater of Bank of America's prime rate or the Federal Funds rate plus .5%. At September 30, 2001 and December 31, 2000, the Company had \$90,000,000 in outstanding borrowings under the Credit Facility.

**Senior Subordinated Notes** - At September 30, 2001 and December 31, 2000, the Company had outstanding 8 1/2% senior subordinated notes in the aggregate principal amount of \$250,000,000 (the Senior Notes). Semi-annual interest payments are due February 15 and August 15. The Senior Notes are unsecured, mature in August 2007, and are redeemable at the Company's option after August 15, 2002.

**Convertible Subordinated Debentures** - At September 30, 2001 and December 31, 2000, the Company had outstanding 5 3/4% convertible subordinated debentures in the aggregate principal amount of \$55,194,000 and \$66,000,000. During the three and nine months ended September 30, 2001, debentures aggregating \$4,306,000 and \$10,806,000 in principal were repurchased substantially at par. Semi-annual interest payments are due March 31 and September 30. The debentures are unsecured, mature on September 30, 2003, are convertible into common stock at the holder's option at \$31.11 per share until maturity, and are redeemable at the Company's option at various redemption prices. As of September 30, 2001 and 2000, 1,774,000 and 2,379,000 shares of common stock would be issuable upon conversion (see Note 6).

See Note 5 to the December 31, 2000 Consolidated Financial Statements for additional discussion of the terms and conditions of the bank credit facility, senior subordinated notes and convertible subordinated debentures.

**Interest Expense** - Interest expense, net for the three months ended September 30, 2001 and 2000 includes interest expense of \$7,271,000 and \$8,044,000, and interest income of \$812,000 and \$924,000. The Company capitalized interest costs of \$509,000 and \$648,000 during the three months ended September 30, 2001 and 2000. The weighted-average interest rate on borrowings under the bank revolving credit facility during the three months ended September 30, 2001 and 2000 was 4.6% and 7.8%.

Interest expense, net for the nine months ended September 30, 2001 and 2000 includes interest expense of \$21,790,000 and \$23,358,000, and interest income of \$3,153,000 and \$2,987,000. The Company capitalized interest costs of \$1,917,000 and \$2,445,000 during the nine months ended September 30, 2001 and 2000. The weighted-average interest rate on borrowings under the bank revolving credit facility during the nine months ended September 30, 2001 and 2000 was 5.7% and 7.5%.

**Interest Rate Swap** - The Company at times uses interest rate swaps for non- trading purposes to hedge interest rate risk and optimize its combination of variable and fixed interest rate debt. In June 2001, the Company entered into an interest rate

swap transaction with a financial institution that provided variable interest rate features on certain fixed rate senior subordinated debt obligations. The agreement provided that the Company pay a variable interest rate based on LIBOR, and that the Company receive a fixed interest rate of 5.9%, on a principal notional amount of \$125,000,000. The swap was designated as a fair value hedge of the underlying fixed rate debt obligation, and met the conditions for assuming no ineffectiveness using the short-cut method under Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities".

In September 2001, the swap agreement was terminated and settled with a \$1,600,000 net payment to the Company. The \$1,600,000 net gain was deferred when received and is being amortized into income as an adjustment to interest expense over the underlying hedged debt term through August 2007. Interest expense reflects adjustments of \$11,000 in the three and nine months ended September 30, 2001.

## 6. PER SHARE DATA

The computation of diluted loss per share was anti-dilutive for the three months ended September 30, 2001 and 2000; therefore, reported basic and diluted per share amounts are the same.

Diluted earnings per share assumes conversion of the convertible debentures into common stock and elimination of associated interest expense, net of taxes, on such debt (see Note 5). The following schedule reconciles basic and diluted earnings per share (dollars and shares in thousands):

	Net Income (Loss)	Weighted Average Shares	Earnings (Loss) Per Share
	-----	-----	-----
Three Months Ended September 30, 2001:			
-----			
Basic Loss per share.....	\$(2,275)	41,757	\$(0.05)
Dilution adjustments:			
Common stock equivalents - stock options.....	--	679	
5 3/4% Convertible debentures.....	479	1,896	
	-----	-----	
Diluted loss per share.....	\$(1,796)	44,332	\$(0.05)
	=====	=====	
Three Months Ended September 30, 2000:			
-----			
Basic loss per share (Note 2).....	\$(4,641)	41,668	\$(0.11)
Dilution adjustments:			
Common stock equivalents - stock options.....	--	678	
5 3/4% Convertible debentures.....	598	2,379	
	-----	-----	
Diluted loss per share.....	\$(4,043)	44,725	\$(0.11)
	=====	=====	
Nine months Ended September 30, 2001:			
-----			
Basic earnings per share.....	\$46,992	41,747	\$ 1.13
Dilution adjustments:			
Common stock equivalents - stock options.....	--	698	
5 3/4% Convertible debentures.....	1,458	1,970	
	-----	-----	
Diluted earnings per share.....	\$48,450	44,415	\$ 1.09
	=====	=====	
Nine months Ended September 30, 2000:			
-----			
Basic earnings per share before cumulative effect of accounting change (Note 2).....	\$41,036	41,657	\$ 0.99
Cumulative effect of accounting change, net of taxes.....	(1,257)	41,657	(0.03)
	-----	-----	-----
Basic earnings per share.....	39,779	41,657	0.96
Dilution adjustments:			
Common stock equivalents - stock options.....	--	731	
5 3/4% Convertible debentures.....	1,738	2,379	
	-----	-----	
Diluted earnings per share.....	\$41,517	44,767	\$ 0.93
	=====	=====	=====

## 7. RELATED PARTY TRANSACTIONS

Notes and other receivables at September 30, 2001 and December 31, 2000 include \$918,000 and \$886,000 due from a partnership in which the Company's Chairman and Chief Executive Officer is a partner, including accrued interest. The note bears interest at 1% over prime, is collateralized by certain partnership land, and is payable on demand. Because the Company does not anticipate or require repayment before September 30, 2002, the balance has been classified as a noncurrent asset in the accompanying consolidated balance sheet.

Notes and other receivables at September 30, 2001 and December 31, 2000 include \$6,151,000 and \$4,945,000 due from the Company's Chairman and Chief Executive Officer. The amount due represents premiums paid by the Company under a split-dollar life insurance trust arrangement on behalf of the Chairman, cash advances and expenses paid by the Company on behalf of the Chairman, and accrued interest. The amount due bears interest at 1% over prime and is payable on demand. Because the Company does not anticipate or require repayment before September 30, 2002, the balance has been classified as a noncurrent asset in the accompanying consolidated balance sheet.

Note and other receivables at September 30, 2001 include \$16,287,000 due from Las Vegas Industrial Park, LLC, an entity owned by the Company's Chairman and Chief Executive Officer, including accrued interest. At December 31, 2000, notes and other receivables include \$15,383,000 due from Las Vegas Industrial Park, LLC. In January 2000, the Company sold the 1.4 million square-foot Las Vegas Industrial Park and 280 acres of undeveloped land to Las Vegas Industrial Park, LLC for approximately \$53.3 million paid in cash of \$40.0 million and a note receivable of \$13.3 million. The note bears interest at LIBOR plus 2.00% and is collateralized by the underlying sold property. Because the note is scheduled to mature in July 2002, the balance has been classified as a current and noncurrent asset in the accompanying September 30, 2001 and December 31, 2000 consolidated balance sheets, respectively.

From time to time, the Company pays certain expenses and makes cash advances for various corporate purposes on behalf of Sonic Financial Corp. (Sonic Financial), a Company affiliate through common ownership, and of Las Vegas Industrial Park, LLC. At September 30, 2001 and December 31, 2000, notes and other receivables include \$5,733,000 and \$940,000 due from Sonic Financial, and \$3,559,000 and \$1,643,000 due from Las Vegas Industrial Park, LLC. The amounts are classified as short-term based on expected repayment dates.

Amounts payable to affiliates at September 30, 2001 and December 31, 2000 include \$2,594,000 for acquisition and other expenses paid on behalf of AMS by Sonic Financial prior to 1996. Of this amount, approximately \$1,800,000 bears interest at 3.83% per annum. The remainder of the amount bears interest at prime plus 1%. The entire amount is classified as long-term based on expected repayment dates. Amounts payable to affiliates at September 30, 2001 and December 31, 2000 also include \$999,000 and \$1,317,000 owed to a former LVMS shareholder and executive officer in equal monthly payments through December 2003 at 6.4% imputed interest.

## 8. STOCK OPTION PLANS

Formula Stock Option Plan - In 2001, the Company granted options to four outside directors to purchase an aggregate of 60,000 and 15,000 shares at exercise prices per share of \$22.31 and \$23.21, respectively, representing fair market value at award dates under the Formula Stock Option Plan.

## 9. LEGAL PROCEEDINGS AND CONTINGENCIES

On May 20, 2000, near the end of a NASCAR-sanctioned event hosted at LMSC, a portion of a pedestrian bridge leading from its track facility to a parking area failed. In excess of 100 people were injured to varying degrees. Preliminary investigations indicate the failure was the result of excessive interior corrosion resulting from improperly manufactured bridge components. All personal injury claims resulting from this incident are currently being handled by the bridge's manufacturer, Tindall Corporation, and its insurer.

To date, 33 separate lawsuits have been filed by individuals claiming injuries from the bridge failure on May 20, 2000, including 3 new lawsuits filed since the beginning of the third quarter of 2001. Generally, these lawsuits were filed against SMI, LMSC, Tindall Corporation and Anti-Hydro International, Inc., in the North Carolina Superior Courts of Cabarrus, Mecklenburg, Rowan, Union and Wake Counties, and in the United States District Courts for the Middle District and Western District of North Carolina, seeking unspecified compensatory and punitive damages. Discovery has begun in many of the cases but will not be completed until June 2002. SMI intends to defend itself and denies the allegations of negligence as well as related claims for punitive damages. Additional lawsuits involving this incident may be filed in the future. Management does not believe the outcome of these lawsuits or this incident will have a material adverse effect on the Company's financial position or future results of operations. The following additional plaintiffs filed claims in this matter since the beginning of the third quarter of 2001 on the dates indicated:

Edwin L. King and Patricia C. King, August 27, 2001; Scott A. Hansen and Pamela C. Hansen, August 28, 2001; and William R. Coltrane, September 6, 2001.

On January 31, 2001, the Federal Trade Commission (the "FTC") filed a complaint (the "FTC Complaint") against SMI and its subsidiary, Oil-Chem, in the United States District Court, Middle District of North Carolina. The FTC is seeking a judgment to enjoin SMI and Oil-Chem from advertising zMax Power System for use in motor vehicles and to award equitable relief to redress alleged injury to consumers. SMI has filed an answer in this action and discovery has begun. Management does not believe the outcome of this lawsuit will have a material adverse effect on the Company's financial position or future results of operations.

On March 8, 2001, Larry L. Johnson filed a class action complaint against SMI and Oil-Chem in the Superior Court of Gaston County, North Carolina. The plaintiff is seeking unspecified damages for violation of the North Carolina Unfair and Deceptive Trade Practices Act. The facts alleged to support this claim are substantially identical to those of the FTC Complaint. The class has not been certified, but discovery has begun. SMI intends to defend itself vigorously. Management does not believe the outcome of this lawsuit will have a material adverse effect on the Company's financial position or future results of operations.

On February 8, 2000, a lawsuit, styled Robert L. "Larry" Carrier v. Speedway Motorsports, Inc. and Bristol Motor Speedway, Inc. was filed in the Chancery Court for Sullivan County, Tennessee. This suit alleges that SMI and BMS interfered with the use of a leasehold property rented to the plaintiff by BMS. The complaint is seeking \$15 million in compensatory, and \$60 million in punitive, damages as well as injunctive relief. On August 8, 2001, the trial court denied all motions for summary judgment previously filed by plaintiff and the defendant and the matter is being scheduled for trial. SMI believes that the allegations are without merit and is defending itself vigorously. Management does not believe the outcome of this lawsuit will have a material adverse effect on the Company's financial position or future results of operations.

## 10. CONDENSED NON-GUARANTOR FINANCIAL INFORMATION

The Company's Credit Facility and Senior Subordinated Notes are joint and severally guaranteed by all of the Company's wholly-owned subsidiaries except for certain minor wholly-owned subsidiaries.

The following table presents condensed consolidating financial information of the Company's guarantor and non-guarantor subsidiaries as of September 30, 2001 and December 31, 2000 and for the three and nine months ended September 30, 2001 and 2000 (in thousands):



Condensed Consolidating Balance Sheets As Of September 30, 2001 and December 31, 2000

	September 30, 2001					December 31, 2000				
	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Current assets	\$ 40,279	\$ 71,982	\$ 5,610	--	\$ 117,871	\$ 15,423	\$ 63,008	\$ 7,280	\$ (2,408)	\$ 83,303
Property and equipment, net....	12,081	799,791	1,910	--	813,782	10,640	784,506	2,685	650	798,481
Goodwill and other intangible assets, net.....	4,876	47,746	4,609	--	57,231	5,066	49,314	4,725	--	59,105
Other assets.....	27,439	8,481	117	--	36,037	27,017	24,608	108	(665)	51,068
Advances to and investments in subsidiaries, net.....	833,011	(84,972)	(14,560)	\$(733,479)	--	805,871	(227,732)	(14,837)	(563,302)	--
<b>Total assets.....</b>	<b>\$917,686</b>	<b>\$843,028</b>	<b>\$(2,314)</b>	<b>\$(733,479)</b>	<b>\$1,024,921</b>	<b>\$864,017</b>	<b>\$ 693,704</b>	<b>\$ (39)</b>	<b>\$(565,725)</b>	<b>\$991,957</b>
Current liabilities.....	\$ 31,202	\$ 68,962	\$ 2,080	\$ 1,746	\$ 103,990	\$ 15,694	\$ 86,972	\$ 1,983	\$ 534	\$105,183
Long-term debt.....	397,666	220	1,048	(164)	398,770	408,788	305	1,000	(164)	409,929
Other liabilities.....	61,887	33,381	(27)	(11)	95,230	60,194	37,348	(27)	(11)	97,504
<b>Total liabilities.....</b>	<b>490,755</b>	<b>102,563</b>	<b>3,101</b>	<b>1,571</b>	<b>597,990</b>	<b>484,676</b>	<b>124,625</b>	<b>2,956</b>	<b>359</b>	<b>612,616</b>
Total stockholders' equity and (deficiency).....	426,931	740,465	(5,415)	(735,050)	426,931	379,341	569,079	(2,995)	(566,084)	379,341
<b>Total liabilities and stockholders' equity (deficiency)...</b>	<b>\$917,686</b>	<b>\$843,028</b>	<b>\$(2,314)</b>	<b>\$(733,479)</b>	<b>\$1,024,921</b>	<b>\$864,017</b>	<b>\$ 693,704</b>	<b>\$ (39)</b>	<b>\$(565,725)</b>	<b>\$991,957</b>

Condensed Consolidating Statements Of Operations For the Three Months Ended September 30, 2001 and 2000

	2001					2000				
	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Total revenues.....	\$ 204	\$49,445	\$ 3,705	--	\$53,354	\$ 270	\$46,885	\$ 4,449	--	\$51,604
Total expenses and other.....	2,106	49,354	5,622	--	57,082	893	53,221	5,204	--	59,318
Equity in net income (loss) of subsidiaries.....	(1,114)	--	--	\$1,114	--	(4,266)	--	--	\$4,266	--
<b>Net income (loss).....</b>	<b>\$(2,275)</b>	<b>\$ 56</b>	<b>\$(1,170)</b>	<b>\$1,114</b>	<b>\$(2,275)</b>	<b>\$(4,641)</b>	<b>\$(3,812)</b>	<b>\$(454)</b>	<b>\$4,266</b>	<b>\$(4,641)</b>

Condensed Consolidating Statements Of Operations For the Nine Months Ended September 30, 2001 and 2000

	2001					2000				
	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated	Parent Only	Guarantors	Non-Guarantors	Eliminations	Consolidated
Total revenues.....	\$ 1,106	\$285,909	\$ 8,864	--	\$295,789	\$ 409	\$264,110	\$13,064	--	\$277,583
Total expenses and other.....	6,203	199,252	12,859	--	218,314	3,166	190,554	15,187	--	208,907
Equity in net income (loss) of subsidiaries.....	50,138	--	--	\$(50,138)	--	41,427	--	--	\$(41,427)	--
<b>Net income (loss).....</b>	<b>\$46,992</b>	<b>\$ 52,561</b>	<b>\$(2,423)</b>	<b>\$(50,138)</b>	<b>\$ 46,992</b>	<b>\$39,779</b>	<b>\$42,696</b>	<b>\$(1,269)</b>	<b>\$(41,427)</b>	<b>\$ 39,779</b>

Condensed Consolidating Statements Of Cash Flows For the Nine Months Ended September 30, 2001 and 2000

	2001			Consoli- dated	2000			Consoli- dated
	Parent Only	Guarantors	Guarantors		Parent Only	Guarantors	Non- Guarantors	
Net cash provided (used) by operations.....	\$34,687	\$ 38,161	\$(619)	\$ 72,229	\$ 12,193	\$ 28,541	\$ 260	\$ 40,994
Net cash used by financing activities.....	(8,606)	--	--	(8,606)	(39,756)	--	--	(39,756)
Net cash provided (used) by investing activities.....	(7,341)	(39,802)	10	(47,133)	(5,010)	(27,266)	(484)	(32,760)

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements including the Notes thereto.

### **Overview**

The Company derives revenues principally from the sale of tickets to automobile races and other events held at its speedway facilities, from the sale of food, beverage and souvenirs during such events, from the sale of sponsorships to companies that desire to advertise or sell their products or services at such events, and from the licensing of television, cable network and radio rights to broadcast such events. The Company derives additional revenue from The Speedway Club at LMSC and The Texas Motor Speedway Club, dining and entertainment facilities located at the respective speedways, and from Legends Car operations of 600 Racing, Inc., a wholly-owned subsidiary of LMSC. The Company also derives additional revenue from Motorsports By Mail LLC (MBM), a wholesale and retail distributor of racing and other sports related souvenir merchandise and apparel; from Oil-Chem, which produces an environmentally- friendly, metal energizer; from Racing Country USA, a nationally syndicated radio show; from SoldUSA, an internet auction and e-commerce company; and from Wild Man Industries (WMI), a screen printing and embroidery manufacturer and distributor of wholesale and retail apparel. MBM is a wholly-owned subsidiary of FLE, and WMI is a division of FLE.

The Company classifies its revenues as admissions, event related revenue and other operating revenue. "Admissions" includes ticket sales for all of the Company's events. "Event related revenue" includes broadcast rights fees, food, beverage and souvenir sales, sponsorship fees, promotional and hospitality revenues, and luxury suite and track rentals. "Other operating revenue" includes the two Speedway Clubs, Legends Car, industrial park rental, MBM, Oil-Chem, SoldUSA and WMI revenues. The Company's revenue items produce different operating margins. Broadcast rights, sponsorships, ticket sales, and luxury suite and track rentals produce higher margins than concessions and souvenir sales, as well as sales of Legends Cars, MBM, Oil-Chem, or other operating revenues.

The Company classifies its expenses to include direct expense of events and other direct operating expense, among other things. "Direct expense of events" principally consists of race purses, sanctioning fees, cost of food, beverage and souvenir sales, compensation of certain employees and advertising. "Other direct operating expense" includes the cost of Speedway Clubs, Legends Car, industrial park rental, MBM, Oil-Chem, SoldUSA and WMI revenues.

The Company sponsors and promotes outdoor motorsports events. Weather conditions affect sales of tickets, concessions and souvenirs, among other things, at these events. Although the Company sells tickets well in advance of its larger events, poor weather conditions can have a negative effect on the Company's results of operations.

Significant growth in the Company's revenues depends, in large part, on consistent investment in facilities. The Company has several capital projects underway at each of its speedways.

The Company does not believe that its financial performance has been materially affected by inflation. The Company has generally been able to mitigate the effects of inflation by increasing prices.

### **Seasonality and Quarterly Results**

In 2001, the Company currently will promote 17 major annual racing events sanctioned by the National Association for Stock Car Auto Racing, Inc. ("NASCAR"), including ten Winston Cup and seven Busch Grand National Series racing events. The Company will also promote three Indy Racing Northern Light Series ("IRL") racing

events, three NASCAR Craftsman Truck Series racing events, four major National Hot Rod Association ("NHRA") racing events, five World of Outlaws ("WOO") racing events, and two UDTRA Pro Dirt Car Series ("UDTRA") racing events in 2001. In 2000, the Company derived a substantial portion of its total revenues from admissions and event related revenue attributable to 17 major NASCAR-sanctioned racing events, four IRL racing events, two NASCAR Craftsman Truck Series racing events, three major NHRA racing events, seven WOO racing events, and three Hav-A-Tampa Dirt Late Model Series ("HAT") racing events. As a result, the Company's business has been, and is expected to remain, highly seasonal.

In 2000 and 1999, the Company's second and fourth quarters accounted for 67% and 68%, respectively, of its total annual revenues and 86% and 89%, respectively, of its total annual operating income. The Company sometimes produces minimal operating income or losses during its third quarter when it hosts only one major NASCAR race weekend.

Racing schedules may be changed from time to time and can lessen the comparability of operating results between quarters of successive years and increase or decrease the seasonal nature of the Company's motorsports business.

The results of operations for the three and nine months ended September 30, 2001 and 2000 are not indicative of the results that may be expected for the entire year because of the seasonality discussed above.

Set forth below is certain comparative summary information with respect to the Company's scheduled major NASCAR-sanctioned racing events for 2001 and 2000:

	Number of scheduled major NASCAR-sanctioned events	
	2001	2000
1st Quarter.....	4	4
2nd Quarter.....	8	8
3rd Quarter.....	2	2
4th Quarter.....	3	3
Total.....	17	17

## RESULTS OF OPERATIONS

AMS hosted an Indy Racing Northern Light Series racing event in the third quarter of 2000 which was held in the second quarter of 2001. The third quarter 2000 IRL event was hosted under a restructured sanctioning agreement whereby net event results were included in event related revenue. The second quarter 2001 IRL event results are included in admissions and event related revenues and direct expense of events. Also, BMS hosted a major NHRA-sanctioned Nationals racing event in the third quarter of 2000 which was held in the second quarter of 2001. An IRL racing event hosted by LVMS in the second quarter of 2000, whereby net events results were included in event related revenue, was not held in the current period.

Surrounding the attacks that occurred on September 11, 2001, a NASCAR Craftsman Truck and an Indy Racing Northern Light Series racing event originally scheduled at TMS in September 2001 was rescheduled to October 2001. Also, one UDTRA Pro Dirt Car Series and two World of Outlaws racing events originally scheduled at TMS in September 2001 were cancelled and will not be rescheduled.

A major Championship Auto Racing Teams racing event originally scheduled at TMS in April 2001 was not conducted as a result of a decision made by CART's sanctioning body. See Note 2 to the September 30, 2001 consolidated financial statements and Part II - "Item 1. Legal Proceedings" for additional information on this matter.

## Three Months Ended September 30, 2001 Compared To Three Months Ended September 30, 2000

**Total Revenues.** Total revenues for the three months ended September 30, 2001 increased by \$1.8 million, or 3.4%, over such revenues for the same period in 2000. This improvement was due primarily to an increase in event related revenue.

**Admissions.** Admissions for the three months ended September 30, 2001 decreased by \$530,000, or 2.6%, from such revenue for the same period in 2000. This decrease was due primarily to BMS hosting a major NHRA-sanctioned Nationals racing event in the third quarter of 2000 which was held in the second quarter of 2001. The overall decrease was partially offset by continued growth in admissions at NASCAR-sanctioned racing events held at BMS during the current period.

**Event Related Revenue.** Event related revenue for the three months ended September 30, 2001 increased by \$4.5 million, or 23.2%, over such revenue for the same period in 2000. This increase was due primarily to increases in broadcast rights fees for NASCAR-sanctioned racing events held at BMS during the current period. The overall increase was partially offset by the IRL racing event hosted at AMS, and the NHRA racing event hosted at BMS, in the third quarter of 2000 which were held in the second quarter of 2001.

**Other Operating Revenue.** Other operating revenue for the three months ended September 30, 2001 decreased by \$2.3 million, or 20.0%, from such revenue for the same period in 2000. This decrease was due to decreased MBM sales revenues and certain FLE revenues associated with outside venues. The decrease was also due to decreased Oil-Chem revenues associated with reduced advertising while FTC litigation with Oil-Chem continues. See Part II - "Item 1. Legal Proceedings" for additional information on this legal matter.

**Direct Expense of Events.** Direct expense of events for the three months ended September 30, 2001 increased by \$1.3 million, or 6.9%, over such expense for the same period in 2000. This increase was due primarily to higher race purses and sanctioning fees for NASCAR-sanctioned racing events held at BMS during the current period. The overall increase was partially offset by hosting the IRL racing event at AMS, and the NHRA racing event at BMS, in the third quarter of 2000 which were held in the second quarter of 2001.

**Other Direct Operating Expense.** Other direct operating expense for the three months ended September 30, 2001 decreased by \$1.0 million, or 10.4%, from such expense for the same period in 2000. This decrease reflects lower operating costs associated with reduced MBM and certain FLE outside venue revenues in the current period as compared to the same period in 2000. The decrease was also due to decreased Oil-Chem revenues associated with reduced advertising while FTC litigation with Oil-Chem continues.

**General and Administrative.** General and administrative expense for the three months ended September 30, 2001 increased by \$950,000, or 7.2%, over such expense for the same period in 2000. This increase was due to legal and testing costs associated with the FTC litigation with Oil-Chem, and to increases in operating costs associated with the growth and expansion at the Company's speedways and operations.

**Depreciation and Amortization.** Depreciation and amortization expense for the three months ended September 30, 2001 increased by \$73,000, or 0.9%, over such expense for the same period in 2000. This increase results primarily from additions to property and equipment at the Company's speedways.

**Interest Expense, Net.** Interest expense, net for the three months ended September 30, 2001 was \$6.5 million compared to \$7.1 million for the same period in 2000. This decrease was due primarily to lower interest rates on the revolving Credit Facility and a reduction in outstanding Convertible Subordinated Debentures during the current period. The overall decrease was offset by lower capitalized interest during the current period.

**Concession Contract Rights Resolution.** Concession contract rights resolution of \$3.1 million for the three months ended September 30, 2000 represents costs to reacquire the contract rights to provide event food, beverage and souvenir merchandising services at SPR from a previous provider whose original contract term expired in 2004, including legal and other transaction costs. The present value of estimated net future benefits to operations under the contract rights as of the resolution date is anticipated to exceed its costs.

**Other Income.** Other income for the three months ended September 30, 2001 decreased by \$328,000, to \$77,000, from such income for the same period in 2000. This decrease was due to a combination of individually insignificant items.

**Income Tax Benefit.** The Company's effective income tax rate for the three months ended September 30, 2001 and 2000 was 39% and 40%, respectively.

**Net Loss.** Net loss for the three months ended September 30, 2001 decreased by \$2.4 million or 51.0%, to \$2.3 million, as compared to the same period in 2000. This decrease was due to the factors discussed above.

#### Nine Months Ended September 30, 2001 Compared To Nine Months Ended September 30, 2000

**Total Revenues.** Total revenues for the nine months ended September 30, 2001 increased by \$18.2 million, or 6.6%, over such revenues for the same period in 2000. This improvement was due primarily to an increase in event related revenue.

**Admissions.** Admissions for the nine months ended September 30, 2001 decreased by \$2.6 million, or 2.3%, from such revenue for the same period in 2000. This decrease was due primarily to lower attendance at NASCAR-sanctioned racing events held at LMSC, LVMS and TMS, an IRL racing event held at TMS, and World of Outlaws and UDTRA Pro Dirt Car Series racing events held at BMS during the current period as compared to last year. The overall decrease was partially offset by increased admissions at NASCAR-sanctioned racing events held at AMS, BMS and SPR during the current period.

**Event Related Revenue.** Event related revenue for the nine months ended September 30, 2001 increased by \$27.1 million, or 20.8%, over such revenue for the same period in 2000. This increase was due primarily to increases in broadcast rights fees for NASCAR-sanctioned racing events held during the current period. The overall increase was partially offset by lower corporate suite rental, hospitality and other event related revenues during the current period as compared to the same period in 2000. The overall increase was also partially offset by the IRL racing event hosted at LVMS in the second quarter of 2000 which was not held in the current period.

**Other Operating Revenue.** Other operating revenue for the nine months ended September 30, 2001 decreased by \$6.3 million, or 17.9%, from such revenue for the same period in 2000. This decrease was due primarily to decreased Oil-Chem revenues associated with reduced advertising while FTC litigation with Oil-Chem continues, and to decreased Legends Car, MBM and certain FLE outside venue revenues.

**Direct Expense of Events.** Direct expense of events for the nine months ended September 30, 2001 increased by \$12.7 million, or 13.7%, over such expense for the same period in 2000. This increase was due primarily to higher race purses and sanctioning fees for NASCAR-sanctioned racing events. The increase also reflects the restructured IRL racing event at AMS whereby net event results were included in event related revenue in 2000, and higher advertising and other promotional costs for events held during the current period as compared to the same period in 2000.

**Other Direct Operating Expense.** Other direct operating expense for the nine months ended September 30, 2001 decreased by \$5.7 million, or 18.5%, from such expense for the same period in 2000. This decrease was due primarily to reduced advertising while FTC litigation with Oil-Chem continues, and to decreased operating and advertising costs associated with reduced Oil-Chem, Legends Car, MBM and certain FLE outside venue revenues in the current period as compared to the same period in 2000.

**General and Administrative.** General and administrative expense for the nine months ended September 30, 2001 increased by \$5.0 million, or 12.7%, over such expense for the same period in 2000. This increase was attributable to increases in operating costs associated with the growth and expansion at the Company's speedways and operations, and to legal and testing costs associated with the FTC litigation with Oil-Chem.

**Depreciation and Amortization.** Depreciation and amortization expense for the nine months ended September 30, 2001 increased by \$1.0 million, or 4.4%, over such expense for the same period in 2000. This increase results primarily from additions to property and equipment at the Company's speedways.

**Interest Expense, Net.** Interest expense, net for the nine months ended September 30, 2001 was \$18.6 million compared to \$20.4 million for the same period in 2000. This decrease was due primarily to lower interest rates on the revolving Credit Facility, a reduction in outstanding Convertible Subordinated Debentures during the current period, and to higher interest income earned on cash investments. The overall decrease was offset by lower capitalized interest during the current period.

**Expenses of Cancelled CART Race.** Expenses of cancelled CART race of \$3.5 million for the nine months ended September 30, 2001 represent principally race event costs associated with the CART-sanctioned race, originally scheduled at TMS on April 29, 2001, which was not conducted as a result of a decision made by CART's sanctioning body. See Note 2 to the September 30, 2001 consolidated financial statements and Part II - "Item 1. Legal Proceedings" for additional information on this matter.

**Concession Contract Rights Resolution.** Concession contract rights resolution of \$3.1 million for the nine months ended September 30, 2000 represents costs to reacquire the contract rights to provide event food, beverage and souvenir merchandising services at SPR from a previous provider whose original contract term expired in 2004, including legal and other transaction costs. The present value of estimated net future benefits to operations under the contract rights as of the resolution date is anticipated to exceed its costs.

**Other Income.** Other income for the nine months ended September 30, 2001 increased by \$2.2 million, to \$3.0 million, over such income for the same period in 2000. This increase results primarily from gains recognized upon expiration in the current period of buyer rights under certain TMS condominium sales contracts whereby buyers could require Company repurchase within three years from date of purchase. Recognition of such gains was deferred until the buyer's right expired.

**Income Tax Provision.** The Company's effective income tax rate for the nine months ended September 30, 2001 and 2000 was 39% and 40%, respectively.

**Income Before Cumulative Effect of Accounting Change.** Income before accounting change for the nine months ended September 30, 2001 increased by \$6.0 million, or 14.5%, to \$47.0 million, over such income for the same period in 2000. This increase was due to the factors discussed above.

**Cumulative Effect of Accounting Change.** Cumulative effect of accounting change for Club Membership Fees of \$1.3 million for the nine months ended September 30, 2000 represents the cumulative effect, net of income taxes of \$824,000, as of January 1, 2000, of the Company's change in revenue recognition policies for Speedway Club membership fees. Net revenues from membership fees previously were recognized as income when billed and associated expenses were incurred. Under the new method, net membership revenues are deferred when billed and amortized into income over ten years.

**Net Income.** Net income for the nine months ended September 30, 2001 increased by \$7.2 million, or 18.1%, to \$47.0 million, over such income for the same period in 2000. This increase was due to the factors discussed above.

## LIQUIDITY AND CAPITAL RESOURCES

The Company has historically met its working capital and capital expenditure requirements through a combination of cash flow from operations, bank borrowings and other debt and equity offerings. The Company expended significant amounts of cash in the nine months of 2001 for improvements and expansion at its speedway facilities. Significant changes in the Company's financial condition and liquidity during the nine months ended September 30, 2001 resulted primarily from: (1) net cash generated by operations amounting to \$72.2 million, (2) capital expenditures amounting to \$38.4 million, and (3) reducing outstanding Convertible Subordinated Debentures by \$10.8 million. At September 30, 2001, the Company had \$90.0 million in outstanding borrowings under the \$250.0 million Credit Facility.

Management anticipates that cash from operations, and funds available through the Credit Facility, will be sufficient to meet the Company's operating needs through 2002, including planned capital expenditures at its speedway facilities. Based upon anticipated future growth and financing requirements, management expects that the Company will, from time to time, engage in additional financing of a character and in amounts to be determined. The Company may, from time to time, redeem or retire convertible subordinated debentures and other debt, and purchase its other securities, depending on liquidity, prevailing market conditions, as well as such factors as permissibility under the Credit Facility, the Senior Subordinated Notes, and as the Board of Directors, in its sole discretion, may consider relevant. While the Company expects to continue to generate positive cash flows from its existing speedway operations, and has generally experienced improvement in its financial condition, liquidity and credit availability, such resources, as well as possibly others, could be needed to fund the Company's continued growth, including the continued expansion and improvement of its speedway facilities.

### Capital Expenditures

Significant growth in the Company's revenues depends, in large part, on consistent investment in facilities. Therefore, the Company expects to continue to make substantial capital improvements in its facilities to meet increasing demand and to increase revenue. Currently, a number of significant capital projects are underway.

In 2001, the Company continued major renovations at SPR, including its ongoing reconfiguration and modernization into a "stadium-style" road racing course, adding up to 25,000 new grandstand seats, 64,000 new hillside terrace seats, and 19 new luxury suites. Also, SPR plans to continue improving and expanding its on-site roads and available parking, and reconfiguring traffic patterns and entrances to ease congestion and improve traffic flow. Completion of such renovation and expansion at SPR is presently scheduled for 2002. In 2001, the Company continued to further expand concessions, restroom and other fan amenities for the convenience, comfort and enjoyment of fans, and to continue improving and expanding its on-site roads and available parking to ease congestion and improve traffic flow at each of its speedways.

The estimated aggregate cost of capital expenditures in each of 2001 and 2002 will approximate \$55 million. Numerous factors, many of which are beyond the Company's control, may influence the ultimate costs and timing of various capital improvements at the Company's facilities, including undetected soil or land conditions, additional land acquisition costs, increases in the cost of construction materials and labor, unforeseen changes in the design, litigation, accidents or natural disasters affecting the construction site and national or regional economic changes. In addition, the actual cost could vary materially from the Company's estimates if the Company's assumptions about the quality of materials or workmanship required or the cost of financing such construction were to change. Construction is also subject to state and local permitting processes, which if changed, could materially affect the ultimate cost.



In addition to expansion and improvements of its existing speedway facilities and business operations, the Company is continually evaluating new opportunities that will add value for the Company's stockholders, including the acquisition and construction of new speedway facilities, the expansion and development of its existing Legends Cars and Oil-Chem products and markets and the expansion into complementary businesses.

## **Dividends**

The Company does not anticipate paying any cash dividends in the foreseeable future. Any decision concerning the payment of dividends on the Common Stock will depend upon the results of operations, financial condition and capital expenditure plans of the Company, as well as such factors as permissibility under the Credit Facility, the Senior Subordinated Notes and as the Board of Directors, in its sole discretion, may consider relevant. The Credit Facility and Senior Subordinated Notes preclude the payment of any dividends.

## **Recently Issued Accounting Standards**

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities" as of January 1, 2001. SFAS No. 133 established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires, among other things, that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. Because the Company had no derivative instruments on January 1, 2001, adoption had no effect on the Company's financial statements or disclosures.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 "Business Combinations" which requires, among other things, the purchase method of accounting for business combinations initiated after September 30, 2001, eliminates the pooling-of-interests method and clarifies the criteria for recording intangible assets separate from goodwill. The Company believes the adoption of SFAS No.141 will have no significant impact on its financial statements.

In July 2001, SFAS No. 142 "Goodwill and Other Intangible Assets" was issued specifying, among other things, that goodwill and other intangible assets with indefinite useful lives will no longer be amortized, but instead will be evaluated for possible impairment at least annually. Under SFAS No. 142, the Company will cease amortizing goodwill, including goodwill from past business combinations, identify appropriate reporting units for purposes of assessing any possible future impairment of goodwill, and assess goodwill for impairment under transitional rules. The Company is required to adopt SFAS No.142 on January 1, 2002 and has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations. Goodwill amortization expense amounted to \$445,000 and \$1.3 million in the three and nine months ended September 30, 2001.

In October 2001, SFAS No. 143 "Accounting for Asset Retirement Obligations" was issued specifying, among other things, the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Because the Company presently does not have asset retirement obligations, adoption is expected to have no significant impact on the Company's financial statements or disclosures.

In October 2001, SFAS No. 144 "Accounting for the Impairment or Disposal of Long-lived Assets" was issued specifying, among other things, the financial accounting and reporting for the impairment or disposal of long-lived assets. The Company is required to adopt SFAS No.144 on January 1, 2002 and has not determined the impact, if any, that this statement will have on its consolidated financial position or results of operations.

## Near-term Operating Trends

There are many factors that affect the Company's growth potential, future operations and financial results. Fiscal 2001 is the Company's first year under the multi-year consolidated domestic television broadcast and ancillary rights agreements for NASCAR Winston Cup and Busch Grand National Series events. These new agreements are expected to provide the Company with future increases in contracted broadcasting and other ancillary revenues. Total combined revenues under the domestic broadcast and ancillary rights agreements could approximate up to \$67 million in 2001, representing a \$37 million increase over 2000. These new rights agreements have associated increases in purse and sanction fees.

The recent national attacks of September 11, 2001 have raised a combination of unforeseen factors never before encountered, including public concerns regarding air travel, military actions, and additional national or local catastrophic incidents. These factors, in an already challenging economy, are affecting consumer and corporate spending sentiment. Economic conditions and competitive racing also can affect ticket and other sales. Management believes long-term ticket demand, including corporate marketing and promotional spending, should continue to grow. However, near-term ticket sales, particularly to corporate customers, and suite rentals, hospitality and other event revenues have been, and may continue to be, adversely impacted by circumstances arising from recent national tragedies and challenging economic conditions. Management decided not to increase many ticket and concession prices at least for 2001 to help foster fan support and mitigate any near term weakness.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

**Interest Rate Risk.** The Company's financial instruments with market risk exposure consist only of bank revolving Credit Facility borrowings which are sensitive to changes in interest rates. The Company's Senior Subordinated Notes and Convertible Subordinated Debentures are fixed interest rate debt obligations. A change in interest rates of one percent on the Credit Facility balance outstanding at September 30, 2001 would cause a change in annual interest expense of approximately \$900,000.

**Equity Price Risk.** The Company has marketable equity securities, all classified as "available for sale." Such investments are subject to price risk, which the Company attempts to minimize generally through portfolio diversification.

As of and during the three and nine months ended September 30, 2001, the Company repurchased Convertible Subordinated Debentures aggregating \$4.3 million and \$10.8 million in principal at substantially par, and entered into and settled an interest rate swap agreement. See Note 5 to the accompanying September 30, 2001 financial statements for additional information on the terms and conditions of the Company's debt obligations and swap agreement. There have been no other significant changes in the Company's interest rate risk or equity price risk as of and during the three and nine months ended September 30, 2001.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings

On May 20, 2000, near the end of a NASCAR-sanctioned event hosted at LMSC, a portion of a pedestrian bridge leading from its track facility to a parking area failed. In excess of 100 people were injured to varying degrees. Preliminary investigations indicate the failure was the result of excessive interior corrosion resulting from improperly manufactured bridge components. All personal injury claims resulting from this incident are currently being handled by the bridge's manufacturer, Tindall Corporation, and its insurer.

To date, 33 separate lawsuits have been filed by individuals claiming injuries from the bridge failure on May 20, 2000, including 3 new lawsuits filed since the beginning of the third quarter of 2001. Generally, these lawsuits were filed against SMI, LMSC, Tindall Corporation and Anti-Hydro International, Inc., in the North Carolina Superior Courts of Cabarrus, Mecklenburg, Rowan, Union and Wake Counties, and in the United States District Courts for the Middle District and Western District of North Carolina, seeking unspecified compensatory and punitive damages. Discovery has begun in many of the cases but will not be completed until June 2002. SMI intends to defend itself and denies the allegations of negligence as well as related claims for punitive damages. Additional lawsuits involving this incident may be filed in the future. Management does not believe the outcome of these lawsuits or this incident will have a material adverse effect on the Company's financial position or future results of operations. The following additional plaintiffs filed claims in this matter since the beginning of the third quarter of 2001 on the dates indicated:

Edwin L. King and Patricia C. King, August 27, 2001; Scott A. Hansen and Pamela C. Hansen, August 28, 2001; and William R. Coltrane, September 6, 2001.

On January 31, 2001, the Federal Trade Commission (the "FTC") filed a complaint (the "FTC Complaint") against SMI and its subsidiary, Oil-Chem, in the United States District Court, Middle District of North Carolina. The FTC is seeking a judgment to enjoin SMI and Oil-Chem from advertising zMax Power System for use in motor vehicles and to award equitable relief to redress alleged injury to consumers. SMI has filed an answer in this action and discovery has begun. Management does not believe the outcome of this lawsuit will have a material adverse effect on the Company's financial position or future results of operations.

On March 8, 2001, Larry L. Johnson filed a class action complaint against SMI and Oil-Chem in the Superior Court of Gaston County, North Carolina. The plaintiff is seeking unspecified damages for violation of the North Carolina Unfair and Deceptive Trade Practices Act. The facts alleged to support this claim are substantially identical to those of the FTC Complaint. The class has not been certified, but discovery has begun. SMI intends to defend itself vigorously. Management does not believe the outcome of this lawsuit will have a material adverse effect on the Company's financial position or future results of operations.

On February 8, 2000, a lawsuit, styled Robert L. "Larry" Carrier v. Speedway Motorsports, Inc. and Bristol Motor Speedway, Inc. was filed in the Chancery Court for Sullivan County, Tennessee. This suit alleges that SMI and BMS interfered with the use of a leasehold property rented to the plaintiff by BMS. The complaint is seeking \$15 million in compensatory, and \$60 million in punitive, damages as well as injunctive relief. On August 8, 2001, the trial court denied all motions for summary judgment previously filed by plaintiff and the defendant and the matter is being scheduled for trial. SMI believes that the allegations are without merit and is defending itself vigorously. Management does not believe the outcome of this lawsuit will have a material adverse effect on the Company's financial position or future results of operations.

A major Championship Auto Racing Teams racing event originally scheduled at TMS on April 29, 2001 was not conducted as a result of a decision made by CART's sanctioning body. The Company offered refunds of paid tickets and certain other event revenues.

On May 3, 2001, the Company filed an action against CART in the United States District Court for the Eastern District of Texas, claiming, among other things, that CART was negligent and that it breached its contract. On October 12, 2001, this legal action was settled for approximately \$5.0 million, representing recovery of the associated sanction fees, race purse, various expenses, revenues and other damages.

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

(a) None.

(b) No reports were filed on Form 8-K during the fiscal quarter covered by this Form 10-Q.

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**End of Filing**