

Edgar Filing: RAYTECH CORP - Form 10-Q

RAYTECH CORP
Form 10-Q
November 13, 2002

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended September 29, 2002 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 1-9298

RAYTECH CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or other Jurisdiction of
Incorporation or Organization)

06-1182033
(I.R.S. Employer
Identification No.)

Suite 295, Four Corporate Drive
Shelton, Connecticut
(Address of Principal Executive Offices)

06484
(Zip Code)

203-925-8023
(Registrant's Telephone Number)

Indicate by check mark whether the Registrant (1) has filed all reports 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 whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

As of November 7, 2002, 41,683,554 shares of the Registrant's common stock, par value \$1.00, were issued and outstanding. (See Part II, Item 1. Legal Proceedings, Paragraph 3.)

Page 1 of 55

RAYTECH CORPORATION
INDEX

Edgar Filing: RAYTECH CORP - Form 10-Q

Page
Number

PART I.	FINANCIAL INFORMATION:	
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets at September 29, 2002 (Unaudited) (Successor Company) and December 30, 2001 (Successor Company)	4
	Condensed Unaudited Consolidated Statements of Operations for the period July 1, 2002 to September 29, 2002 (Successor Company) and for the period July 2, 2001 to September 30, 2001 (Successor Company)	6
	Condensed Unaudited Consolidated Statements of Operations for the period December 31, 2001 to September 29, 2002 (Successor Company), for the period April 3, 2001 to September 30, 2001 (Successor Company) and for the period January 1, 2001 to April 2, 2001 (Predecessor Company)	7
	Condensed Unaudited Consolidated Statements of Cash Flows for the period December 31, 2001 to September 29, 2002 (Successor Company), for the period April 3, 2001 to September 30, 2001 (Successor Company) and for the period January 1, 2001 to April 2, 2001 (Predecessor Company)	8
	Condensed Unaudited Consolidated Statements of Changes in Shareholders' Equity for the period December 31, 2001 to September 29, 2002 (Successor Company), for the period April 3, 2001 to September 30, 2001 (Successor Company) and for the period January 1, 2001 to April 2, 2001 (Predecessor Company)	9
	Notes to Condensed Unaudited Consolidated Financial Statements	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	44
Item 4.	Controls and Procedures	45
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	46
Item 4.	Submission of Matters to a Vote of Security Holders	48

Edgar Filing: RAYTECH CORP - Form 10-Q

Item 6. Exhibits and Reports on Form 8-K	49
Signature	50
Certification of Chief Executive Officer (ss.302)	51
Certification of Chief Executive Officer (ss.302)	52
Exhibits	53
Exhibit 99(A) Certification Chief Financial Officer (ss.906)	54
Exhibit 99(B) Certification of Chief Executive Officer (ss.906)	55

-3-

RAYTECH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except share data)

At	Successor Company	
	September 29, 2002 (unaudited)	December 30, 2001
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18,113	\$ 14,463
Restricted cash	2,015	5,396
Trade accounts receivable, less allowance of \$865 at September 29, 2002 and \$729 at December 30, 2001	30,652	22,961
Inventories, net	33,372	31,562
Income taxes receivable	4,793	37,877
Other current assets	7,754	7,048
	-----	-----
Total current assets	96,699	119,307
	-----	-----
Property, plant and equipment	127,278	119,678
Less accumulated depreciation	(22,228)	(10,386)
	-----	-----
Net property, plant and equipment	105,050	109,292
	-----	-----
Intangible assets, net	71,122	72,790
Deferred income taxes	16,623	16,600
Other assets	2,585	2,799
	-----	-----
Total assets	\$ 292,079	\$ 320,788
	=====	=====

The accompanying notes are an integral part of these statements.

-4-

Edgar Filing: RAYTECH CORP - Form 10-Q

RAYTECH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except share data) (cont.)

At	Successor Company	
	September 29, 2002 (unaudited)	December 30, 2001
LIABILITIES		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 11,238	\$ 10,262
Current portion of pension obligation	5,349	7,049
Accounts payable	16,039	13,268
Accrued liabilities	24,944	22,694
Payable to the PI Trust	4,938	38,022
Total current liabilities	62,508	91,295
Long-term debt	6,534	6,820
Pension obligation	13,698	15,409
Postretirement benefits other than pensions	13,590	12,876
Deferred payable to the PI Trust	41,614	41,614
Other long-term liabilities	983	987
Total liabilities	138,927	169,001
Minority interest	8,653	7,704
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Capital stock		
Cumulative preferred stock, no par value, 5,000,000 shares authorized, none issued and outstanding	--	--
Common stock, par value \$1.00, 50,000,000 shares authorized, 41,683,554 issued and outstanding at September 29, 2002 and 41,528,520 issued and outstanding at September 30, 2001	41,683	41,528
Additional paid in capital	117,152	116,843
Accumulated deficit	(6,897)	(5,577)
Accumulated other comprehensive loss	(7,439)	(8,711)
Total shareholders' equity	144,499	144,083
Total liabilities and shareholders' equity	\$ 292,079	\$ 320,788

Edgar Filing: RAYTECH CORP - Form 10-Q

The accompanying notes are an integral part of these statements.

-5-

RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share data)
(unaudited)

	Successor Company	
	for the Period July 1, 2002 to September 29, 2002	for the Period July 2, 2001 to September 30, 2001
Net Sales	\$ 51,740	\$ 48,752
Cost of sales	(43,542)	(39,388)
	8,198	9,364
Gross profit		
Selling and administrative expenses	(7,960)	(8,667)
	238	697
Operating profit (loss)		
Interest expense	(309)	(302)
Reorganization items	--	(399)
Other income, net	300	157
	229	153
Income (loss) before provision for environmental claims, income taxes and minority interest		
Provision for environmental claims	(5,400)	(1,310)
	(5,171)	(1,157)
Loss before income taxes and minority interest		
Income tax benefit	1,916	2,371
	(3,255)	1,214
(Loss) income before minority interest		
Minority interest	(173)	(333)
	(3,428)	881
Net (loss) income	\$ (3,428)	\$ 881
	Basic (loss) earnings per share	\$.02
	\$ (.08)	\$.02
Basic (loss) earnings per share		
	\$ (.08)	\$.02
Diluted (loss) earnings per share	\$ (.08)	\$.02

Edgar Filing: RAYTECH CORP - Form 10-Q

The accompanying notes are an integral part of these statements.

-6-

RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share data)
(unaudited)

	Successor Company		Predecessor Company
	for the period December 31, 2001 to September 29, 2002	for the Period April 3, 2001 to September 30, 2001 (See Note B)	for the Peri January 1, 2001 to April 2, 20 (See Note B)
Net Sales	\$ 159,754	\$ 99,313	\$ 55,20
Cost of sales	(130,420)	(85,871)	(43,81
	-----	-----	-----
Gross profit	29,334	13,442	11,39
Selling and administrative expenses	(23,734)	(15,666)	(7,74
	-----	-----	-----
Operating profit (loss)	5,600	(2,224)	3,65
Interest expense	(765)	(612)	(37
Interest expense - Raymark	--	--	(7
Reorganization items	--	(784)	99,99
Other income, net	83	446	29
	-----	-----	-----
Income (loss) before provision for environmental claims, income taxes, minority interest and extraordinary items	4,918	(3,174)	103,49
Provision for environmental claims	(5,400)	(1,310)	-----
	-----	-----	-----
(Loss) income before income taxes, minority interest and extraordinary items	(482)	(4,484)	103,49
Benefit (provision) for income taxes	111	3,609	(30,84
	-----	-----	-----
(Loss) income before minority interest and extraordinary items	(371)	(875)	72,64
Minority interest	(949)	(639)	(31
	-----	-----	-----
(Loss) income before extraordinary items	(1,320)	(1,514)	72,33
	-----	-----	-----
Extraordinary items, net of tax of \$135,977	--	--	6,922,92

Edgar Filing: RAYTECH CORP - Form 10-Q

Net (loss) income	\$ (1,320)	\$ (1,514)	\$ 6,995,25
Basic (loss) earnings per share	\$ (.03)	\$ (.04)	\$ 1,778.8
Diluted (loss) earnings per share	\$ (.03)	\$ (.04)	\$ 1,772.6

The accompanying notes are an integral part of these statements.

-7-

RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Successor Company		Predecessor Company
	for the Period December 31, 2001 to September 29, 2002	for the Period April 3, 2001 to Sept. 30, 2001 (See Note B)	for the Period Jan. 2001 to April 2, 2001 (See Note B)
Cash flows from operating activities:			
Net (loss) income	\$ (1,320)	\$ (1,514)	\$ 6,995,25
Depreciation and amortization	13,867	8,117	3,38
Other operating activities	(2,717)	8,849	(7,001,12
Net cash provided by (used in) operating activities	9,830	15,452	(2,48
Cash flow from investing activities:			
Capital expenditures	(6,919)	(5,039)	(2,71
Proceeds on sales of property, plant and equipment	58	71	1
Net cash used in investing activities	(6,861)	(4,968)	(2,70
Cash flow from financing activities:			
Cash overdraft	--	--	(37
Net borrowings (payments) on short-term notes	768	(401)	2,11
Principal payments on long-term debt	(830)	(782)	(48
Proceeds from long-term debt	121	36	3
Net proceeds on borrowings from Raymark	--	--	(70
Proceeds from exercise of stock options	464	19	--

Edgar Filing: RAYTECH CORP - Form 10-Q

Net cash provided by (used in) financing activities	523	(1,128)	58
Effect of exchange rate changes on cash	158	55	(7)
Net change in cash and cash equivalents	3,650	9,411	(4,68)
Cash and cash equivalents at beginning of period	14,463	9,232	13,91
Cash and cash equivalents at end of period	\$ 18,113	\$ 18,643	\$ 9,23

The accompanying notes are an integral part of these statements.

-8-

RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands, except shares)
(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Shares At Cost (2,132,059 Shares)
	-----	-----	-----	-----	-----
PREDECESSOR COMPANY					
Balance, December 31, 2000	\$ 5,651	\$ 70,631	\$ (7,049,641)	\$ (1,218)	\$ (4,561)
Comprehensive income:					
Net income			6,995,257		
Changes during the period				(284)	
Total comprehensive income			6,995,257	(284)	
Reorganization	35,870	46,200	54,384	1,502	4,561
Balance, April 2, 2001	\$ 41,521	\$ 116,831	\$ --	\$ --	\$ --
SUCCESSOR COMPANY					
Balance, April 2, 2001	\$ 41,521	\$ 116,831	\$ --	\$ --	\$ --
Comprehensive loss:					
Net loss			(1,514)		
Changes during the period				(1,683)	

Edgar Filing: RAYTECH CORP - Form 10-Q

Total comprehensive loss			(1,514)	(1,683)	
Stock options exercised (6,596 shares)	7	12			
Balance, September 30, 2001	\$ 41,528	\$ 116,843	\$ (1,514)	\$ (1,683)	\$ --
Balance, December 30, 2001	\$ 41,528	\$ 116,843	\$ (5,577)	\$ (8,711)	\$ --
Comprehensive loss:					
Net loss			(1,320)		
Changes during the period				1,272	
Total comprehensive loss			(1,320)	1,272	
Stock options exercised (155,034 shares)	155	309			
Balance, September 29, 2002	\$ 41,683	\$ 117,152	\$ (6,897)	\$ (7,439)	\$ --

The accompanying notes are an integral part of these statements.

-9-

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, unless otherwise noted,
except per share data)
(Unaudited)

Note A - Formation of Raytech Corporation, Sale of Raymark,
Chapter 11 Proceeding and Emergence from Bankruptcy

Raytech Corporation ("Raytech" or the "Company") was incorporated in June, 1986 in Delaware and held as a subsidiary of Raymark Corporation ("Raymark"). In October 1986, Raytech became the publicly traded (NYSE) holding company of Raymark stock through a triangular merger restructuring plan approved by Raymark's shareholders whereby each share of common stock of Raymark was automatically converted into a share of Raytech common stock. In May 1988, Raytech divested all of the Raymark stock.

In accordance with the restructuring plan, Raytech, through its subsidiaries, purchased certain non-asbestos businesses of Raymark in 1987, including the Wet Clutch and Brake Division and Raybestos Industrie-Produkte GmbH, a German subsidiary. Despite the restructuring plan implementation and subsequent divestiture of Raymark, Raytech was named a co-defendant with Raymark and other named defendants in numerous asbestos-related lawsuits as a successor in liability to Raymark.

In one of the asbestos-related personal injury cases decided in October 1988 in a U.S. District Court in Oregon, Raytech was ruled under Oregon equity law to be a successor to Raymark's asbestos-related liability. The successor

Edgar Filing: RAYTECH CORP - Form 10-Q

ruling was appealed by Raytech and in October 1992 the Ninth Circuit Court of Appeals affirmed the District Court's judgment. The effect of this decision extended beyond the Oregon District due to a Third Circuit Court of Appeals decision in a related case wherein Raytech was collaterally estopped (precluded) from relitigating the issue of its successor liability for Raymark's asbestos-related liabilities.

In order to stay the asbestos-related litigation, on March 10, 1989, Raytech filed a petition seeking relief under Chapter 11 of Title 11, United States Code in the United States Bankruptcy Court, District of Connecticut.

After several Court rulings, including an appeal to the U.S. Supreme Court, the Oregon case, as affirmed by the Ninth Circuit Court of Appeals, remained as the prevailing decision holding Raytech to be a successor to Raymark's asbestos-related liabilities.

As a result of the referenced Court rulings, in October, 1998 Raytech reached a tentative settlement with its creditors for a consensual plan of reorganization (the "Plan"), providing for all general unsecured creditors including all asbestos and environmental claimants to receive 90% of the equity in Raytech in exchange for their claims. As such, an asbestos personal injury trust (the "PI Trust") established under the Bankruptcy Code would receive approximately 84% of the equity of Raytech and the Governments and others would receive approximately 6% of the equity of Raytech. In addition, any and all refunds of taxes resulting from the implementation of the Plan would be paid to the PI Trust. The existing equity holders in Raytech were to retain 10% of the equity in Raytech.

-10-

Note A, continued

As a result of the final estimation of allowed claims, Raytech recorded asbestos claims of \$6.76 billion, Government claims of \$431.8 million, pension liability claims of \$16 million and retiree benefit claims of \$2.5 million during 2000. The total estimated amount of allowed claims was \$7.2 billion.

On August 31, 2000, the Bankruptcy Court confirmed Raytech's Plan, which confirmation was affirmed by the U.S. District Court on September 13, 2000. All conditions under the confirmation of the Plan were subsequently met, and the Plan became effective on April 18, 2001 ("Effective Date"), resulting in Raytech emerging from bankruptcy. On the Effective Date, a channeling injunction ordered by the Bankruptcy Court pursuant to Section 524(g) of the Bankruptcy Code has and will permanently and forever stay, enjoin and restrain any asbestos-related claims against Raytech and subsidiaries, thereby channeling such claims to the PI Trust for resolution. On the Effective Date, the rights afforded and the treatment of all claims and equity interests in the Plan were in exchange for and in complete satisfaction, discharge and release of, all claims and equity interests against Raytech. The Company's Certificate of Incorporation was amended and restated in accordance with the Plan providing for authority to issue up to 55 million shares of stock, of which 50 million is common and 5 million is preferred. In settlement of the estimated amount of allowed claims of \$7.2 billion, approximately 38 million shares of common stock were issued and \$2.5 million in cash was payable to the allowed claimants and a commitment was made to pay to the PI Trust any and all refunds of taxes paid or net reductions in taxes resulting from the implementation of the Plan. The shares issued are exempt from registration pursuant to the Bankruptcy Code; however, shares issued to the PI Trust have restrictions on resale as a result of their high percentage of ownership in Raytech. In addition, Raytech had assumed the liability for the Raymark pension plan claim. In September 2002 with the final Court decision denying Raytech's appeal, the Company assumed the administration of the plans.

Edgar Filing: RAYTECH CORP - Form 10-Q

It has been represented to Raytech by the Raymark Trustee that the retiree benefit claim will be retained by Raymark. Settlement of the Raymark claims resulted in cancellation in full of the Raymark debt and accrued interest of \$12.0 million and a commitment of Raytech to backstop the Raymark Trustee for professional fees in the event the Raymark Trustee has insufficient recovery of funds for such purposes up to \$1 million. At September 29, 2002, the Company has \$1 million included in accrued liabilities related to this commitment.

See Note C - Fresh-Start Reporting.

-11-

Note B - Condensed Consolidated Financial Statements

These condensed unaudited consolidated financial statements (Successor and Predecessor Company) have been prepared pursuant to the requirements of Article 10 of Regulation S-X, and in the opinion of management, contain all adjustments necessary to fairly present the consolidated financial position of Raytech as of September 29, 2002 and the consolidated results of operations and cash flows for all interim periods presented. All adjustments are of a normal recurring nature except for those relating to reorganization and fresh-start adjustments (see Note C). The effective date of the Company's emergence from bankruptcy was April 18, 2001; however, for accounting purposes, the Company has accounted for the reorganization and fresh-start adjustments on April 2, 2001, which is the first day after the Company's first quarter for fiscal 2001. All financial information prior to that date is presented as pertaining to the Predecessor Company while all information after that date is presented as pertaining to the Successor Company. Consequently, after giving effect to the reorganization and fresh-start adjustments, the financial statements of the Successor Company are not comparable to those of the Predecessor Company. The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. The financial statements contained herein should be read in conjunction with the Company's financial statements and related notes filed on Form 10-K for the year ended December 30, 2001. Interim results are not necessarily indicative of the results for the full year.

Certain amounts for prior periods have been reclassified to conform to the current period presentation.

-12-

Note C - Fresh-Start Reporting

The effective date of the Company's emergence from bankruptcy was April 18, 2001; however, for accounting purposes it was considered to be the close of business on April 2, 2001. As of April 2, 2001, the Company adopted fresh-start reporting pursuant to the guidance provided by the American Institute of Certified Public Accountants' Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7"). In accordance with fresh-start reporting, all assets and liabilities were recorded at their respective fair market values. The fair value of substantially all of the Company's property, plant and equipment and identifiable intangible assets were determined by independent third-party appraisers.

The reorganization value of the Successor Company was determined based on the equity value (which represents enterprise value less debt) of the Successor Company plus the Successor Company's outstanding liabilities. The reorganization value was approximately \$324 million, which was approximately \$35 million in excess of the aggregate fair value of the Company's tangible and identifiable

Edgar Filing: RAYTECH CORP - Form 10-Q

intangible assets less liabilities. Such excess is classified as goodwill in the accompanying Condensed Consolidated Balance Sheet and is being accounted for in accordance with SFAS NO. 142, "Goodwill and Other Intangible Assets."

To facilitate the calculation of the equity value of the Successor Company, the Company developed a set of financial projections. Based on these financial projections, the equity value was determined by the Company, with the assistance of a financial advisor, using various valuation methods, including (i) a comparison of the Company and its projected performance to the market values of comparable companies, (ii) a review and analysis of several recent transactions of companies in similar industries to the Company, and (iii) a calculation of the present value of the future cash flows under the projections. The estimated equity value is highly dependent upon achieving the future financial results set forth in the projections as well as the realization of certain other assumptions, which are not guaranteed. The total equity value as of the effective date was determined to be approximately \$158 million.

The reorganization and the adoption of fresh-start reporting resulted in the following adjustments to the Company's Condensed Consolidated Balance Sheet as of April 2, 2001:

-13-

Note C, continued

Adjustments to Record Effectiveness of the Plan of Reorganization (in thousands)

	Predecessor Balance Sheet April 2, 2001 -----	Reorganization Adjustments -----	Fresh-Start Adjustments -----	Reorganized Balance Sheet April 2, 2001 -----
ASSETS				
Current assets				
Cash and cash equivalents	\$ 11,732	\$ (2,500) (a)	\$	\$ 9,232
Trade accounts receivable	29,207			29,207
Inventories	32,590		5,923 (b)	38,513
Income taxes receivable	-	37,877 (c)		37,877
Other current assets	7,759	2,500 (a)	(2,381) (f)	7,878
Total current assets	81,288	37,877	3,542	122,707
Net property, plant and equipment	82,138		30,823 (d)	112,961
Goodwill	18,923		15,844 (e)	34,767
Other intangible assets	375		39,316 (g)	39,691
Deferred income taxes	137,202	(99,341) (f) (c)	(27,308) (f)	10,553
Other assets	2,957			2,957
Total assets	\$ 322,883 =====	\$ (61,464) =====	\$ 62,217 =====	\$ 323,636 =====

-14-

Edgar Filing: RAYTECH CORP - Form 10-Q

Note C, continued

Adjustments to Record
Effectiveness of the Plan of Reorganization
(in thousands)

	Predecessor Balance Sheet April 2, 2001 -----	Reorganization Adjustments -----	Fresh-Start Adjustments -----	Reorganized Balance Sheet April 2, 2001 -----
LIABILITIES				
Current liabilities				
Notes payable and current portion of long-term debt	\$ 12,144	\$	\$	\$ 12,144
Raymark debt	10,709	(10,709) (h)		--
Current portion of pension obligations	353	8,500 (j)	134 (k)	8,987
Accounts payable	14,220	2,500 (a)		16,720
Accrued liabilities	20,501	(275) (i)		20,226
Payable to PI Trust	--	37,877 (c)		37,877
	-----	-----	-----	-----
Total current liabilities	57,927	37,893	134	95,954
	-----	-----	-----	-----
Liabilities subject to compromise	7,211,433	(7,211,433) (j)		--
Long-term debt	8,536			8,536
Pension obligations	1,636	10,000 (j)	(6,916) (k)	4,720
Postretirement benefits other than pensions	13,404		(1,308) (k)	12,096
Deferred payable to the PI Trust	--	36,636 (c)		36,636
Other long-term liabilities	7,654		(312) (f)	7,342
	-----	-----	-----	-----
Total liabilities	7,300,590	(7,126,904)	(8,402)	165,284
	-----	-----	-----	-----
Total shareholders' (deficit) equity	(6,977,707)	7,065,440 (l)	70,619 (m)	158,352
	-----	-----	-----	-----
Total liabilities and shareholders' equity (deficit)	\$ 322,883	\$ (61,464)	\$ 62,217	\$323,636
	=====	=====	=====	=====

-15-

Note C, continued

The explanation of the "Reorganization Adjustments" and "Fresh Start Adjustments" columns of the condensed consolidated balance sheet in the preceding table are as follows:

- a) The Plan required the Company to pay \$2.5 million to the unsecured creditors, which has been reflected as restricted cash, included in other current assets. During April 2001, \$2.1 million of the liability was paid and \$.4 million has been retained by the Company as restricted cash.
- b) Finished goods and work-in-progress inventories have been valued based on

Edgar Filing: RAYTECH CORP - Form 10-Q

their estimated net selling prices less costs to complete, costs of disposal and a reasonable profit allowance for estimated completing and selling effort.

- c) Income taxes receivable and the payable to the PI Trust reflect the payable to the PI Trust of current tax recoveries in accordance with the Plan. Additional tax recoveries to be received in future periods are shown as deferred tax assets and a deferred payable to the PI Trust.
- d) Property, plant and equipment has been adjusted to reflect the fair values of the assets based on independent appraisals.
- e) The unamortized balance of goodwill of the Predecessor Company has been eliminated. Reorganization value in excess of amounts allocable to identifiable assets has been classified as goodwill. The goodwill is being accounted for in accordance with SFAS No. 142 (see Note I).
- f) Deferred tax assets and liabilities have been adjusted for the settlement of the liabilities subject to compromise and the recording of deferred taxes relating to the differences in book and tax bases of assets and liabilities after applying fresh start reporting. The Company used a statutory tax rate of approximately 38%, which approximated the Company's historic tax rate.
- g) Other intangible assets have been adjusted to reflect their fair values as determined by an independent valuation (see Note I).
- h) Raymark debt has been canceled to reflect the resolution of the claims on the Effective Date.
- i) Accrued liabilities have been adjusted to reflect the \$1 million backstop commitment agreed to as a result of the settlement of the Raymark debt (see Note A), the write-off of accrued interest on the Raymark debt (\$2.2 million), and an accrual for bankruptcy-related fees (\$.9 million) that were recorded against the Raymark debt in accordance with the previous indemnification between Raymark and the Company prior to the effective date.
- j) Liabilities Subject to Compromise have been adjusted to reflect the settlement of the claims for cash, assumption of certain pension obligations, the issuance of common shares in the reorganized company and tax recoveries in accordance with the Plan.
- k) The pension and post retirement benefits other than pensions have been adjusted to include the present values of future obligations.

-16-

NOTE C, continued

- l) Shareholders' equity was adjusted to reflect adjustments for the issuance of 90% of the outstanding common shares to the unsecured creditors at an overall equity value of \$158.3 million in accordance with the Plan.
- m) Shareholders' equity was adjusted to reflect the elimination of the accumulated deficit, accumulated other comprehensive loss and treasury shares (which have been retired).

NOTE D - Extraordinary Items

As a result of the consummation of the Plan, the Company recognized an

Edgar Filing: RAYTECH CORP - Form 10-Q

extraordinary gain of the debt discharge on April 2, 2001 as follows:

	Predecessor Company ----- April 2, 2001 -----
Settlement of liabilities subject to compromise	\$ 7,211,433
Assumption of pension-related obligations	(18,500)
Settlement of Raymark debt	11,984
Cash payment to the PI Trust	(2,500)
Back-stop settlement with Raymark	(1,000)
Issuance of common stock	(142,517)

Sub-total	7,058,900
Tax expense	(135,977)

Extraordinary gain on debt discharge	\$ 6,922,923 =====

Note E - Inventories

Inventories, net consist of the following:

	Successor Company -----	
	September 29, 2002 (Unaudited)	December 30, 2001
	-----	-----
Raw material	\$ 10,338	\$ 10,829
Work in process	8,793	7,207
Finished goods	14,241	13,526
	-----	-----
	\$ 33,372	\$ 31,562
	=====	=====

-17-

Note F - Earnings Per Share

Successor Company -----	
For the Period July 1, 2002 to September 29, 2002	For the Period July 2, 2001 to September 30, 2001
-----	-----

Basic EPS Computation

Edgar Filing: RAYTECH CORP - Form 10-Q

Numerator:		
Net (loss) income	\$ (3,428)	\$ 881
	=====	=====
Denominator:		
Weighted average shares	41,528,520	41,521,924
Weighted average stock options exercised	121,703	6,596
	-----	-----
Adjusted weighted average shares	41,650,223	41,528,520
	=====	=====
Basic (loss) income per share	\$ (.08)	\$.02
	=====	=====

Diluted EPS Computation

Numerator:		
Net (loss) income	\$ (3,428)	\$ 881
	=====	=====
Denominator:		
Weighted average shares	41,528,520	41,521,924
Weighted average stock options exercised	121,703	6,596
	-----	-----
Adjusted weighted average shares	41,650,223	41,528,520
	=====	=====
Diluted (loss) income per share	\$ (.08)	\$.02
	=====	=====

The potential common shares of 142,052 for the period July 1, 2002 to September 29, 2002 were not included in the computation of diluted earnings per share because of their anti-dilutive effect due to the Company incurring a net loss for the period.

Options to purchase 394,943 shares of common stock at \$4.25 were outstanding during the period from July 2, 2001 to September 30, 2001. In addition, options to purchase 180,059 shares of common stock at \$2.75 were outstanding during the period from July 2, 2001 to September 30, 2001. These shares were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares.

-18-

Note F, continued

Successor Company		Predecessor Company
-----	-----	-----
For the Period December 31, 2001	For the Period April 3, 2001 to	For the Period January 1, 200

Edgar Filing: RAYTECH CORP - Form 10-Q

	to Sept. 29, 2002 -----	Sept. 30, 2001 -----	to April 2, 2001 -----
Basic EPS Computation			
Numerator:			
(Loss) income before extraordinary items	\$ (1,320)	\$ (1,514)	\$ 72,334
Extraordinary items	--	--	6,922,923
	-----	-----	-----
Net (loss) income (attributable) available to common shareholders	\$ (1,320)	\$ (1,514)	\$6,995,257
	=====	=====	=====
Denominator:			
Weighted average shares	41,528,520	41,521,924	3,519,313
Weighted average shares issued as a result of reorganization	--	--	413,072
Weighted average stock options exercised	51,800	4,800	--
	-----	-----	-----
Adjusted weighted average shares	41,580,320	41,526,724	3,932,385
	=====	=====	=====
Basic (loss) earnings per share:			
(Loss) income before extraordinary items	\$ (.03)	\$ (.04)	\$ 18.39
Extraordinary items	--	--	1,760.49
	-----	-----	-----
Net (loss) income	\$ (.03)	\$ (.04)	\$ 1,778.88
	=====	=====	=====

-19-

Note F, continued

	Successor Company -----		Predecessor Company -----
	For the Period December 31, 2001 to Sept. 29, 2002 -----	For the Period April 3, 2001 to Sept. 30, 2001 -----	For the Per January 1, 2001 to April 2, -----
Diluted EPS Computation			
Numerator:			
(Loss) income before extraordinary items	\$ (1,320)	\$ (1,514)	\$ 72,334
Extraordinary items	--	--	6,922,923
	-----	-----	-----
Net (loss) income (attributable) available to common stockholders	\$ (1,320)	\$ (1,514)	\$6,995,257
	=====	=====	=====
Denominator:			
Weighted average shares	41,528,520	41,521,924	3,519,313

Edgar Filing: RAYTECH CORP - Form 10-Q

Weighted average shares issued as a result of reorganization	--	--	413,072
Weighted average stock options exercised	51,800	4,800	--
Dilutive potential common shares	--	--	13,897
	-----	-----	-----
Adjusted weighted average shares and equivalents	41,580,320	41,526,724	3,946,282
	=====	=====	=====
Diluted (loss) earnings per share:			
(Loss) income before extraordinary items	\$ (.03)	\$ (.04)	\$ 18.33
Extraordinary items	--	--	1,754.29
	-----	-----	-----
Net (loss) income	\$ (.03)	\$ (.04)	\$ 1,772.62
	=====	=====	=====

The potential common shares of 76,600 for the period of December 31, 2001 to September 29, 2002 were not included in the computation of diluted earnings per share because of their anti-dilutive effect due to the Company incurring a net loss for the period.

Options to purchase 483,815 and 487,550 shares of common stock at \$4.25 were outstanding during the period from April 3, 2001 to September 30, 2001, and January 1, 2001 to April 2, 2001, respectively. In addition, options to purchase 209,927 shares of common stock at \$2.75 were outstanding during the period from April 3, 2001 to September 30, 2001. These shares were not included in the computation of diluted earnings per share because the option's exercise price was greater than the average market price of the common shares.

See Notes A and B regarding the effect of the Company's plan of reorganization.

On February 12, 2002, the Official Committee of Equity Security Holders filed a motion in the United States Bankruptcy Court objecting to the allocation of common shares under the Plan of Reorganization between the unsecured creditors and the existing equity holders. The ultimate outcome of this matter is unknown; however, it is possible that its resolution could cause the Company to issue additional shares, or to retire shares, in the future. This would directly impact the earnings per share calculations of the Company.

-20-

Note G - Segment Reporting

The Company's operations are categorized into three business segments based on management structure, product type and distribution channel as described below.

The Wet Friction segment produces specialty engineered products for heat resistant, inertia control, energy absorption and transmission applications. The Company markets its products to automobile original equipment manufacturers, heavy duty original equipment manufacturers, as well as farm machinery, mining, truck and bus manufacturers.

The Dry Friction segment produces engineered friction products, primarily used in original equipment automobile and truck transmissions. The clutch facings produced by this segment are marketed to companies who assemble

Edgar Filing: RAYTECH CORP - Form 10-Q

the manual transmission systems used in automobiles and trucks.

The Aftermarket segment produces specialty engineered products primarily for automobile and lift truck transmissions. In addition to these products, this segment markets transmission filters and other transmission related components. The focus of this segment is marketing to warehouse distributors and certain retail operations in the automotive aftermarket.

The Company has recorded the impact of fresh-start reporting as a part of its corporate headquarters. As a result, the segments do not reflect any adjustments for fresh-start accounting (see Note C).

Information relating to operations by industry segment follows:

-21-

NOTE G, continued

OPERATING SEGMENTS

	Successor Company	
	For the Period July 1, 2002 to September 29, 2002	For the Period July 2, 2001 to September 30, 2001
WET FRICTION		
Net sales to external customers	\$ 31,271	\$ 29,903
Intersegment net sales (1)	2,343	2,105
	-----	-----
Total net sales	\$ 33,614	\$ 32,008
	=====	=====
Operating profit (loss) (2)	\$ 713	\$ (709)
	=====	=====
AFTERMARKET		
Net sales to external customers	\$ 11,040	\$ 11,225
Intersegment net sales (1)	9	2
	-----	-----
Total net sales	\$ 11,049	\$ 11,227
	=====	=====
Operating profit (2)	\$ 1,370	\$ 1,864
	=====	=====
DRY FRICTION		
Net sales to external customers	\$ 9,429	\$ 7,624
Intersegment net sales (1)	22	15
	-----	-----
Total net sales	\$ 9,451	\$ 7,639
	=====	=====

Edgar Filing: RAYTECH CORP - Form 10-Q

Operating profit (2)	\$ 925	\$ 398
	=====	=====
CORPORATE		
Operating loss before provision for environmental claims (2,3)	\$ (2,779)	\$ (1,400)
Provision for environmental claims	(5,400)	(1,310)
	-----	-----
Operating loss (2,3)	\$ (8,179)	\$ (2,710)
	=====	=====
Total Segments		
Net sales to external customers	\$ 51,740	\$ 48,752
Intersegment net sales (1)	2,374	2,122
	-----	-----
Total net sales	\$ 54,114	\$ 50,874
	=====	=====
Operating loss (2)	\$ (5,171)	\$ (1,157)
	=====	=====

- (1) The Company records intersegment sales at an amount negotiated between the segments. All intersegment sales are eliminated in consolidation.
- (2) The Company's management reviews the performance of its reportable segments on an operating profit basis, which consists of income before taxes and minority interest.
- (3) Represents the impact of fresh-start reporting (see Note C), compensation and related costs for employees of the Company's corporate headquarters, professional and shareholder fees and public relations expenses.

-22-

Note G, continued

OPERATING SEGMENTS

	Successor Company		Predecessor Company
	For the Period December 31, 2001 to Sept, 29, 2002	For the Period April 3, 2001 to Sept. 30, 2001	For the Period January 1, 2001 to April 2, 2001
	-----	-----	-----
Net sales to external customers	\$ 98,190	\$ 60,814	\$ 34,073
Intersegment net sales (1)	7,075	3,806	2,974
	-----	-----	-----
Total net sales	\$ 105,265	\$ 64,620	\$ 37,047
	=====	=====	=====
Operating profit (2)	\$ 4,370	\$ 1,296	\$ 1,327

Edgar Filing: RAYTECH CORP - Form 10-Q

	=====	=====	=====
AFTERMARKET			
Net sales to external customers	\$ 35,612	\$ 23,440	\$ 13,101
Intersegment net sales (1)	27	2	10
	-----	-----	-----
Total net sales	\$ 35,639	\$ 23,442	\$ 13,111
	=====	=====	=====
Operating profit (2)	\$ 6,196	\$ 3,847	\$ 2,109
	=====	=====	=====
DRY FRICTION			
Net sales to external customers	\$ 25,952	\$ 15,059	\$ 8,031
Intersegment net sales (1)	89	36	116
	-----	-----	-----
Total net sales	\$ 26,041	\$ 15,095	\$ 8,147
	=====	=====	=====
Operating profit (2)	\$ 1,873	\$ 843	\$ 754
	=====	=====	=====
CORPORATE			
Operating (loss) profit before provision for environmental claims	\$ (7,521)	\$ (9,160)	\$ 99,304
Provision for environmental claims	5,400)	(1,310)	--
	-----	-----	-----
Operating (loss)profit (2,3)	\$ (12,921)	\$ (10,470)	\$ 99,304
	=====	=====	=====
TOTAL SEGMENTS			
Net sales to external customers	\$ 159,754	\$ 99,313	\$ 55,205
Intersegment net sales (1)	7,191	3,844	3,100
	-----	-----	-----
Total net sales	\$ 166,945	\$ 103,157	\$ 58,305
	=====	=====	=====
Operating (loss) profit (2)	\$ (482)	\$ (4,484)	\$ 103,494
	=====	=====	=====

- (1) The Company records intersegment sales at an amount negotiated between the segments. All intersegment sales are eliminated in consolidation.
- (2) The Company's management reviews the performance of its reportable segments on an operating profit basis, which consists of income before taxes and minority interest.
- (3) Represents the impact of fresh-start reporting (see Note C), compensation and related costs for employees of the Company's corporate headquarters, professional and shareholder fees and public relations expenses.

Edgar Filing: RAYTECH CORP - Form 10-Q

Note H - Income Taxes

The effective tax rate for the thirty-nine-week period ended September 29, 2002 is a benefit of 23% compared to an effective rate of 217% for the same period in the prior year, excluding the one-day effect in the amount of \$29.4 million relating to the Plan of Reorganization on April 2, 2001. The rate for the current period reflects a statutory federal rate adjusted for state and foreign taxes. The rate differs from the 2001 rate by 240 percentage points. In the current period, the tax rate was impacted by a change in the mix of domestic and foreign income and loss and the effect of state taxes. The effective tax rate for the thirteen-week period ended September 29, 2002 is a benefit of 37% compared to a benefit of 205% in the same period in the prior year. The effective rate for the thirty-nine-week period ended September 30, 2001 reflects the Company's anticipated annualized rate and differs from the federal statutory tax rate for several reasons. The Company had profitable operations in certain tax jurisdictions which could not be offset by losses incurred by other operating entities in other tax jurisdictions. Further, certain losses of foreign operations did not provide a tax benefit due to limitations on the realizability of those tax attributes. In addition, there were adjustments made in the current period to properly record tax accruals relating to prior periods. And finally, there was the tax effect of expenses that are not deductible for tax purposes.

Pursuant to the Tax Benefits Assignment and Assumption Agreement (the "Agreement") as modified, all tax benefits received by the Company due to the reorganization are to be passed onto the PI Trust as received. At December 30, 2001, the Company had tax loss carryforwards of \$30.2 million and tax credit carryforwards of \$4.9 million, all of which will inure to the benefit of the PI Trust. Additionally, future payments to the PI Trust and others will create additional tax deductions, which will inure to the benefit of the PI Trust in accordance with the Agreement. These include deductions for payments to the PI Trust of tax benefits associated with the utilization of the net operating losses created by the reorganization, and contributions made to the Raymark pension plan. If Raytech Corporation generates net operating losses in future periods, exclusive of net operating losses attributable to the payments discussed above, those net operating losses will be retained by the Company. The method of allocation in utilizing future net operating losses, if any, between the PI Trust and Raytech Corporation has not been determined at this time. Additional tax recoveries to be received in future periods are shown as deferred tax assets (net of deferred tax liabilities) and a deferred payable to the PI Trust which amounted to \$41.6 million at September 29, 2002.

The Company has filed for and received in 2002 Federal tax refunds of \$33.4 million. During the second quarter of 2002, the Agreement was modified to eliminate the holdback provision. As such, and pursuant to the Agreement as modified, Raytech has paid over to the Trust the entire amount of the refunds. Additionally, at September 29, 2002, the Company has a tax receivable in the amount of \$4.8 million relating to amounts due from state governments for returns filed in 2002. These refunds when received will be paid to the Trust.

The Company is under an IRS audit for 1996 through 2001. Any tax assessment, up to the amount of the refunds received, arising from this audit or any other years in the carryback period, are, pursuant to the Agreement, the responsibility of the PI Trust and will therefore reduce the deferred tax asset associated with, and liability payable to, the PI Trust.

The Company owns 57% of the stock of Allomatic Products Company ("APC"). The Company has not recorded a deferred tax liability for the undistributed earnings of APC since management expects that those earnings will be distributed to the Company in a tax-free transaction. However, the deferred

Edgar Filing: RAYTECH CORP - Form 10-Q

-24-

Note H, continued

tax liability on the undistributed earnings of APC would be approximately \$1.0 million at September 29, 2002, if all of APC's earnings were to be distributed through dividends.

-25-

Note I - Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, establishes specific criteria for the recognition of intangible assets separately from goodwill, and requires that unallocated negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS No. 142 addresses the accounting for goodwill and intangible assets subsequent to their acquisition. Under SFAS No. 142, goodwill and indefinite-lived intangibles need to be reviewed for impairment at least annually at the reporting unit level. In addition, the amortization period of intangible assets with finite lives will no longer be limited to forty years. As discussed in Note C, the Company adopted fresh-start reporting as described in the American Institute of Certified Public Accountants' Statement of Position No. 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." SOP 90-7 requires that any change in accounting principles that will be required within the twelve months following the adoption of fresh-start reporting should be adopted at that time. Accordingly, the Company adopted SFAS No. 141 and No. 142 as of April 2, 2001. All intangible assets and goodwill have been valued at fair value as of the date of fresh-start reporting.

	Successor Company			
	September 29, 2002		December 30, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	-----	-----	-----	-----
Finite life intangible assets:				
Unpatented technology	\$ 16,262	\$ 2,910	\$ 16,262	\$ 1,455
Distribution base	5,716	426	5,716	213
	-----	-----	-----	-----
Sub-total	21,978	\$ 3,336	21,978	\$ 1,668
	-----	=====	-----	=====
Indefinite life intangible assets:				
Trademarks	17,713		17,713	
	-----		-----	
Goodwill	34,767		34,767	
	-----		-----	

Edgar Filing: RAYTECH CORP - Form 10-Q

Intangible assets, net	\$ 71,122	\$ 72,790
	=====	=====

The weighted-average amortization periods for the unpatented technology and the distribution base are 6 and 20 years, respectively. Amortization expense for both the periods from July 1, 2002 to September 29, 2002 and from July 2, 2001 to September 30, 2001 amounted to \$556. For the period December 31, 2001 to September 29, 2002 amortization expense amounted to \$1,668.

-26-

Note I, continued

Estimated annual amortization expense is as follows:

For the year ending:

2002	\$ 2,224
2003	2,224
2004	2,224
2005	2,224
2006	2,224

As required by SFAS No. 142, trademarks and goodwill for the Successor Company will not be amortized but will be reviewed for impairment annually. The Company's three operating segments have been defined as reporting units for purposes of testing goodwill for impairment. The amount of goodwill has been assigned to each of the Company's segments as follows: \$28.9 million for the Wet Friction segment and \$5.9 million for the Aftermarket segment. No goodwill has been allocated to the Dry Friction segment. The Company performed its annual impairment review of the trademarks and goodwill in accordance with SFAS 142, as of March 31, 2002. That effort, which was performed with assistance from a third party valuation firm, indicated that no impairment adjustment was necessary. Accordingly, there were no changes in the carrying amount of trademarks or goodwill during the period from December 31, 2001 to September 29, 2002.

Reported net income presented exclusive of amortization expense (including any related tax effects) recognized in prior periods relating to goodwill of the Predecessor Company would have been:

	Predecessor Company

	For the Period
	January 1, 2001 to
	April 1, 2001

Reported net income	\$ 1,715
Add back goodwill amortization	207

Adjusted net income	\$ 1,922
	=====
 Basic earnings per share:	
Reported net income	\$.49
Goodwill amortization	.06

Edgar Filing: RAYTECH CORP - Form 10-Q

Adjusted net income	\$.55
	=====
Diluted earnings per share:	
Reported net income	\$.48

Goodwill amortization	.06

Adjusted net income	\$.54
	=====

-27-

Note J - Litigation

The Company is subject to certain legal matters that have arisen in the ordinary course of business, which management expects would not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company. In addition, the Company is involved in the following litigation.

In April 1996, the Indiana Department of Environmental Management ("IDEM") advised Raybestos Products Company ("RPC"), a wholly-owned subsidiary of the Company, that it may have contributed to the release of lead and PCB's (polychlorinated biphenyls) found in a drainage ditch near its Indiana facility. In June 1996, IDEM named RPC as a potentially responsible party ("PRP"). RPC notified its insurers of the IDEM action and one insurer responded by filing a complaint in January 1997 in the U.S. District Court, Southern District of Indiana, captioned Reliance Insurance Company vs. RPC seeking a declaratory judgment that any liability of RPC is excluded from its policy with RPC. In January 2000, the District Court granted summary judgment to RPC, indicating that the insurer has a duty to defend and indemnify losses stemming from the IDEM claim. In early 2001, Reliance paid \$500,000 to RPC as partial reimbursement for previously incurred defense costs. However, in June 2001, Reliance Insurance Company was placed in rehabilitation in Pennsylvania. The effect upon RPC's claim is not known at this time. Three additional insurers have been added to the Reliance case as ordered by the District Court. RPC has demanded \$15.55 million from the three carriers, none of which have responded as yet. Rather, the parties all have filed various motions which have not yet been heard by the Court. IDEM has turned the matter over to the U.S. Environmental Protection Agency ("EPA"). In December 2000, the EPA issued a Unilateral Administrative Order under CERCLA ("Order") demanding removal of contaminated soils from the referenced drainage ditch. RPC has prepared a plan for implementation, has begun remediation at the site and is in compliance with the cleanup Order. The Company has revised the costs to complete the project and at September 29, 2002 recorded a charge of \$5.4 million, which reflects the anticipated increase in costs. The Company has estimated that the cost to comply with the Order and related fines will be approximately \$14.5 million of which \$6.2 million has been spent through September 29, 2002. The remaining balance of \$8.3 million is included in accrued liabilities. It is at least reasonably possible that the assessment of estimated costs to comply with the Order may be modified as the project progresses and that there may be additional assessments from the EPA. Prior to IDEM's relinquishment of control of the cleanup to the EPA, IDEM and RPC had reached an Agreed Order providing for a risk-based remediation of the contamination different from the EPA's Order. IDEM withdrew from the Agreed Order, which was ruled to be a breach of contract by an Indiana State Superior Court. In July 2002, RPC filed an action against IDEM for damages determined to be the difference between the costs of cleanup under the EPA Order and the IDEM Agreed Order. Various motions have been filed by each party on

Edgar Filing: RAYTECH CORP - Form 10-Q

which the Court has yet to rule. The outcome of this litigation is not known.

In February 2002, the Committee of Equity Holders filed a motion in the U.S. Bankruptcy Court asking for the distribution of the Company's shares to the general creditors under the Plan of Reorganization to be recalculated, claiming that the equity holders received less than the required percentage of shares. The ultimate outcome of this matter is unknown; however, it is possible that its resolution could cause the Company to issue additional shares, or to retire shares, in the future. This would directly impact the earnings per share calculations of the Company. At a preliminary hearing in April 2002, the Court took the matter under advisement pending submission of

-28-

Note J, continued

position papers by the parties. The Company has filed a motion for summary judgment asking the Court to dismiss the action, and the Committee has filed an objection. It is not known when the Court will rule on the motion.

The Company is in receipt of a letter from the Michigan Department of Environmental Quality ("MDEQ") alleging responsibility for trichloroethylene ("TCE") contamination at a Ferndale, Michigan, industrial site formerly occupied by Advanced Friction Materials Company ("AFM") from 1974 to 1985. AFM was acquired by the Company in 1998. The Company is cooperating with the MDEQ in evaluating the subsurface of the site to obtain data concerning the alleged contamination. A work plan has been approved by the MDEQ and the testing procedure has begun. Estimated costs of such evaluation should not exceed \$15 thousand. The Company's liability at this site is indeterminable at this time.

-29-

Note K - Liquidity

Concurrent with the effective date of the Plan, Raytech settled the Liabilities Subject To Compromise either through the issuance of common stock, payment in cash or the assumption of a liability of \$11.2 million for certain Raymark pension plans, among other resolutions. The Company has reached an agreement with the Internal Revenue Service ("IRS") and the Pension Benefit Guaranty Corporation ("PBGC") and has received a funding waiver under Revenue Procedure 94-41. The waiver provides for an extended period of time for funding this pre-2001 amount of \$6.5 million while keeping the annual funding going forward on a current basis. In September 2002, a contribution to the Plan was made of \$4.9 million satisfying the funding obligation through the 2001 Plan year. The pension plans have a current unfunded liability for pre- 2001 funding of \$4.8 million.

Pursuant to the Tax Benefits Assignment and Assumption Agreement (the "Agreement"), all tax benefits received by the Company due to the reorganization are to be passed onto the PI Trust as received. At December 30, 2001, the Company had tax loss carryforwards of \$30.2 million and tax credit carryforwards of \$4.9 million, all of which will inure to the benefit of the PI Trust. Additionally, future payments to the PI Trust and others will create additional tax deductions, which will inure to the benefit of the PI Trust in accordance with the Agreement. These include deductions for payments to the PI Trust of tax benefits associated with the utilization of the net operating losses created by the reorganization, and contributions made to the Raymark pension plan. If Raytech Corporation generates net operating losses in future periods, exclusive of net operating losses attributable to the payments discussed above, those net operating losses will be retained by the Company. The method of allocation in

Edgar Filing: RAYTECH CORP - Form 10-Q

utilizing future net operating losses, if any, between the PI Trust and Raytech Corporation has not been determined at this time. Additional tax recoveries to be received in future periods are shown as deferred tax assets and a deferred payable to the PI Trust which amounted to \$41.6 million at September 29, 2002.

The Company is under an IRS audit for 1996 through 2001. Any tax assessment, up to the amount of the refunds received, arising from this audit or any other years in the carryback period, are, pursuant to the Agreement, the responsibility of the PI Trust and will therefore reduce the deferred tax asset associated with, and liability payable to, the PI Trust.

The Company is complying with a Federal Order issued by the U.S. Environmental Protection Agency (EPA) at its manufacturing facility in Crawfordsville, Indiana. The Company reevaluated the projected cost to complete this project during the third quarter of 2002 and determined that, based on work completed to date, the estimate previously received from its environmental engineering firm was not sufficient to complete the project. The Company has employed a new environmental engineering firm and a new construction company to complete this project. The scope of the cleanup plan has not changed, and the additional charge recorded during the third quarter is expected to be sufficient to complete this project. The Company, at September 29, 2002, recorded a charge of \$5.4 million, which reflects the anticipated increase in costs to complete the project. The Company has an accrued liability of \$8.3 million at September 29, 2002, which is expected to provide for full remediation and fines in compliance with the Order. It is anticipated that substantially all of these costs will be paid in the next twelve months. The Company paid \$4.5 million during the thirty- nine-week period ended September 29, 2002.

Management believes that existing cash balances, availability under its existing credit facilities and cash flow from operations during 2002 will be sufficient to meet all of the Company's obligations arising in the normal course of business, including anticipated capital investments.

-30-

Note L - Restricted Cash

Restricted cash relates to the following:

	Successor Company	
	September 29, 2002	December 30, 2001
	-----	-----
Pension escrow	\$ --	\$ 3,000
Letters of credit	1,604	1,986
Other	411	410
	-----	-----
	\$ 2,015	\$ 5,396
	=====	=====

The letters of credit collateralize certain obligations relating primarily to workers' compensation. The pension escrow account is discussed in Note K - Liquidity.

-31-

Edgar Filing: RAYTECH CORP - Form 10-Q

Note M - Recently Issued Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board issued Financial Accounting Standard No. 146 (SFAS No. 146), "Accounting for Costs Associated with Exit or Disposal Activities." The objectives of SFAS No. 146 are to address financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS No. 146 and Issue No. 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue No. 94-3, a liability for an exit cost as defined in Issue No. 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 will be effective for the Company for exit or disposal activities that are initiated beginning in fiscal 2003.

In May 2002, the Financial Accounting Standards Board issued Financial Accounting Standard No. 145 (SFAS 145) "Revision of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." The Statement rescinds Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and, when material, classified as an extraordinary item net of the related income tax effect. FAS 145 also amends FAS 13 to require that certain lease modifications having economic effect similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. The provisions of SFAS 145 are effective for transactions occurring after May 15, 2002. It is not expected that SFAS 145 will have a material effect on our financial position or results of operations.

-32-

Note N - Subsequent Event

Subsequent to the end of the third quarter, September 29, 2002, two participants in the executive severance program decided to take retirement. The estimated amount of expense associated with the program is \$1.5 million and will be recorded in the fourth quarter of 2002.

-33-

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

In preparing the discussion and analysis required by the Federal Securities Laws, it is presumed that users of the interim financial information have read or have access to the discussion and analysis for the preceding fiscal year.

Results of Operations and Liquidity and Capital Resources

In April 2001, Raytech Corporation emerged from the protection of the Bankruptcy Court under Chapter 11 of Title 11 of the United States Bankruptcy Code. Raytech Corporation had been under the Chapter 11 protection since March 1989. The bankruptcy history and emergence are described in more detail in Note A to the Unaudited Condensed Consolidated Financial Statements.

As of April 2, 2001, the Company adopted fresh-start reporting pursuant to the guidance provided by the American Institute of Certified Public Accountant's Statement of Position 90-7, "Financial Reporting by Entities in Reorganization

Edgar Filing: RAYTECH CORP - Form 10-Q

Under the Bankruptcy Code" ("SOP 90-7"). The Effective Date of the Company's emergence from bankruptcy is considered to be the close of business on April 2, 2001 for financial reporting purposes. The periods presented prior to April 2, 2001 have been designated "Predecessor Company" and the periods subsequent to April 2, 2001 have been designated "Successor Company." In accordance with fresh-start reporting, all assets and liabilities were recorded at their respective fair values. The fair value of substantially all of the Company's long-lived assets were determined using information provided by third-party appraisers.

The Company has determined that the most meaningful presentation of financial information would be to provide comparative analysis of financial performance for the Successor Company for the periods July 1, 2002 through September 29, 2002 and April 1, 2002 through September 29, 2002 compared to the periods July 2, 2001 through September 30, 2001 and April 3, 2001 through September 30, 2001, respectively. Additionally, the period December 31, 2001 through March 31, 2002, Successor Company, has been compared to the period January 1, 2001 through April 1, 2001, Predecessor Company.

The adjustments relating to the recording of reorganization expenses and other fresh-start adjustments for the one-day period ended April 2, 2001 are detailed in Note C to the Unaudited Condensed Consolidated Financial Statements.

The Company has elected not to present a comparative analysis for the thirty-nine-week periods ended September 29, 2002 and September 30, 2001, since such information in the prior period would require consolidating statements of the Predecessor Company and the Successor Company. It was determined that the significance of the adjustments relating to the emergence from bankruptcy would render such analysis not meaningful.

Accounting Policies

The unaudited condensed consolidated financial statements include the accounts of Raytech Corporation and its majority-owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation. The investment by third parties in Allomatic Products Company is accounted for as minority interest in the Unaudited Condensed Consolidated Financial Statements. There are no unconsolidated entities and Raytech does not use Special Purpose Entities (SPE's). The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported and disclosures of contingent liabilities made in the financial statements and accompanying notes. Actual results could differ

-34-

from these estimates. Significant estimates include inventory, receivable and environmental reserves, depreciable lives of property, plant and equipment and intangible assets, pension and other postretirement and postemployment benefits, and the recoverable value of deferred tax assets.

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated or if an amount is likely to fall within a range and no amount within the range can be determined to be the better estimate, the minimum amount of the range is recorded. Remediation obligations are not recorded on a discounted basis. Reimbursements from insurance carriers relating to environmental matters are not recorded until it is probable that such recoveries will be realized.

Results of Operations for the Successor Company for the Thirteen-Week Periods ended September 29, 2002 and September 30, 2001 and Results of Operations for

Edgar Filing: RAYTECH CORP - Form 10-Q

the Successor Company for the Periods April 1, 2002 to September 29, 2002 and April 3, 2001 to September 30, 2001

Raytech Corporation recorded a net loss of \$3.4 million for the thirteen-week period ended September 29, 2002 or \$.08 loss per basic share as compared to net income of \$.9 million or \$.02 per basic share for the thirteen-week period ended September 30, 2001. The change period over period was due to a charge to income for estimated costs associated with an environmental cleanup in Indiana. The details are more fully explained in Litigation Note J and in Liquidity Note K. The accrual for this liability was increased \$5.4 million at September 29, 2002.

Net Sales

Net sales for the thirteen-week period ended September 29, 2002 were \$51.7 million compared to net sales of \$48.8 million for the same period in the prior year, an increase of \$2.9 million or 5.9%. Net sales for the period April 1, 2002 through September 29, 2002 of \$107.0 million compared to \$99.3 million for the same period in the prior year, an increase of \$7.7 million or 7.8%. The increased sales are explained below as the change relates to the individual segments.

The Wet friction segment reported sales of \$31.3 million for the thirteen-week period ended September 29, 2002 compared to \$29.9 million for the same period in the prior year, an increase of \$1.4 million or 4.7%. Sales for the period April 1, 2002 to September 29, 2002 were \$66.1 million compared to \$60.8 million in the same period in the prior year, an increase of \$5.3 million or 8.7%. The improved sales for the quarter and the twenty-six-week period reflect the growth in the automotive OEM component of the market, principally through new business in 2002. The automotive component of this segment has benefited from the aggressive sales incentives and low cost financing packages the automotive OEM's have used to stimulate sales. The heavy duty component of this segment reflects lower sales due to lower demand in certain markets and increased competition.

The Aftermarket segment reported sales of \$11.0 million for the thirteen-week period ended September 29, 2002 compared to \$11.2 million for the same period in the prior year, reflecting a reduction of \$.2 million in sales period-over-period or 1.8%. Sales for the twenty-six week period ended September 29, 2002 were \$23.1 million compared to \$23.4 million for the same period in the prior year, a reduction of \$.3 million or 1.3%. The sales performance reflects the flat demand period-over-period for the aftermarket products. The aftermarket for Raytech's products has been impacted by improved quality of OEM parts and mild winter weather.

-35-

The Dry Friction segment reported sales of \$9.4 million for the thirteen-week period ended September 29, 2002 compared to \$7.6 million for the same period in the prior year, an increase of \$1.8 million or 23.7%. Sales for the period April 1, 2002 through September 29, 2002 were \$17.8 million compared to sales of \$15.1 million for the same period in the prior year, an increase of \$2.7 million or 17.9%. The improved sales reflect the strong sales performance of the operation in China. In June of 2002, the expansion of this facility was completed in order to provide for the needed capacity to serve the Asian and Eastern European markets.

Gross Profit

Raytech recorded gross profit of \$8.2 million for the thirteen-week period ended September 29, 2002, which represents 15.9% of sales for the period as

Edgar Filing: RAYTECH CORP - Form 10-Q

compared to a gross profit of \$9.4 million for the same period in the prior year, which represents 19.3% of sales for that period. The reduced gross margin of \$1.2 million reflects certain startup costs associated with new sales to the automotive OEM market as well as product mix in the Aftermarket segment. Gross profit for the period April 1, 2002 to September 29, 2002 was \$18.8 million, which reflects a percentage of sales for the period of 17.6% compared to a gross margin of \$13.4 million for the same period in the prior year, which represents 13.5% of sales for that period. The comparability of gross margins in the twenty-six-week period is difficult due to certain accounting treatments in 2001 which were required as part of fresh-start accounting. Specifically, a \$5.9 million adjustment was made to increase inventory to fair market value. This increased inventory value reduced the gross margin in subsequent periods as the inventory was sold in the 2001 period.

Selling, General and Administrative

The selling, general and administrative (SG&A) expenses for the period July 1, 2002 to September 29, 2002 were \$8.0 million or 15.5% of sales for the period compared to \$8.7 million for the period July 2, 2001 to September 30, 2001, which represented 17.8% of sales for that period. SG&A for the period April 1, 2002 to September 29, 2002 were \$16.1 million, which represents 15.0% of sales for the period compared to \$15.7 million for the period April 3, 2001 to September 30, 2001, which represents 15.8% of sales for that period. The significant change for the thirteen-week period ended September 29, 2002 was due to lower legal costs and other cost reduction programs throughout the Company.

Interest Expense

Interest expense for the period July 1, 2002 to September 29, 2002 of \$.3 million is the same as the amount recorded in the same period in the prior year. The interest expense for the period April 1, 2002 to September 29, 2002 of \$.5 million compares to \$.6 million in the prior year. The interest expense reflects both similar borrowings and interest rates period-over-period.

Operating Profits

The following discussion of operating results by industry segment relates to information contained in Note G - Segment Reporting to the Unaudited Condensed Consolidated Financial Statements. Operating profit on a segment basis is income before income taxes, minority interest and extraordinary items.

An operating loss of \$5.2 million was recorded for the thirteen-week period ended September 29, 2002 compared to an operating loss of \$1.2 million for the period July 2, 2001 to September 30, 2001. Raytech recorded an operating loss of \$3.3 million for the period April 1, 2002 to September 29, 2002 compared to an operating loss of \$4.5 million for the period April 3, 2001 to September 30, 2001. The operating loss for the thirteen-week period ended September 29, 2002 reflects an addition to the recorded liability and an expense for the period for

-36-

an environmental remediation project at the Crawfordsville, Indiana, facility. The Company reevaluated the projected cost to complete this project during the third quarter of 2002 and determined that, based on work completed to date, the estimate previously received from its environmental engineering firm was not sufficient to complete the project. The Company has employed a new environmental engineering firm and a new construction company to complete this project. The scope of the cleanup plan has not changed, and the additional charge recorded during the third quarter is expected to be sufficient to complete this project. An additional \$5.4 million was charged to expense and added to the accrual, to

Edgar Filing: RAYTECH CORP - Form 10-Q

reflect a change in the estimated cost to complete the remediation project. See Note J - Litigation. The improved operating loss of \$1.2 million for the twenty-six week period ended September 29, 2002 reflects the impact of the inventory adjustment detailed in the gross profit analysis above. In addition, operating performance has improved period-over-period. This improvement was negatively affected by the charge of \$5.4 million for environmental remediation noted above.

The Wet Friction segment recorded an operating profit for the thirteen-week period ended September 29, 2002 of \$.7 million compared to an operating loss of \$.7 million for the period July 2, 2001 through September 30, 2001, an improvement of \$1.4 million. The operating profit for the twenty-six-week period April 1, 2002 through September 29, 2002 is \$2.8 million compared to an operating profit of \$1.3 million, an improvement of \$1.5 million period-over-period. The operating profit in the 2002 periods has been improved due to increased sales period-over-period. These improvements have been offset by startup costs associated with a new supply contract and poor performance in the European component of the Wet Friction segment. The European performance in the period July 1, 2002 to September 29, 2002 showed improvement period-over-period due to reduced costs and improved efficiencies at that location.

The Aftermarket segment recorded operating profit of \$1.4 million for the period July 1, 2002 to September 29, 2002 compared to operating profit of \$1.9 million for the period July 2, 2001 to September 30, 2002, a decline of \$.5 million. The operating profit for the twenty-six-week period April 1, 2002 to September 29, 2002 is \$3.6 million compared to an operating profit of \$3.8 million for the period April 3, 2001 to September 30, 2001, a decrease of \$.2 million. The reduction in operating profit for the thirteen-week period ended September 29, 2002 compared to the same period in the prior year is due to the product mix in sales and lower sales of \$.2 million period-over-period; additionally, customer incentives have been increased in 2002. The reduced profit for the twenty-six-week period reflects lower sales and product mix, and the increased sales incentive costs for the period.

The Dry Friction segment recorded operating profit of \$.9 million for the thirteen-week period ended September 29, 2002 compared to \$.4 for the thirteen-week period July 1, 2001 through September 30, 2001, an increase of \$.5 million. The operating profit for the twenty-six week period April 1, 2002 to September 29, 2002 of \$1.1 million compared to an operating profit for the period April 3, 2001 to September 21, 2001 of \$.8 million, an increase of \$.3 million period-over-period. The operating profit increase in both periods of 2002 over 2001 is due to increased sales through our operation in China and improved operating efficiencies in the European operation.

Income Taxes

The effective tax rate for the thirty-nine-week period ended September 29, 2002 is a benefit of 23% compared to an effective rate of 217% for the same period in the prior year, excluding the one-day effect in the amount of \$29.4 million relating to the Plan of Reorganization on April 2, 2001. The rate for the current period reflects a statutory federal rate adjusted for state and foreign taxes. The rate differs from the 2001 rate by 240 percentage points. In the current period, the tax rate was impacted by a change in the mix of domestic and foreign income and loss and the effect of state taxes. The effective tax

-37-

rate for the thirteen-week period ended September 29, 2002 is a benefit of 37% compared to a benefit of 205% in the same period in the prior year. The effective rate for the thirty-nine-week period ended September 30, 2001 reflects

Edgar Filing: RAYTECH CORP - Form 10-Q

the Company's anticipated annualized rate and differs from the federal statutory tax rate for several reasons. The Company had profitable operations in certain tax jurisdictions which could not be offset by losses incurred by other operating entities in other tax jurisdictions. Further, certain losses of foreign operations did not provide a tax benefit due to limitations on the realizability of those tax attributes. In addition, there were adjustments made in the current period to properly record tax accruals relating to prior periods. And finally, there was the tax effect of expenses that are not deductible for tax purposes.

Pursuant to the Tax Benefits Assignment and Assumption Agreement (the "Agreement") as modified, all tax benefits received by the Company due to the reorganization are to be passed onto the PI Trust as received. At December 30, 2001, the Company had tax loss carryforwards of \$30.2 million and tax credit carryforwards of \$4.9 million, all of which will inure to the benefit of the PI Trust. Additionally, future payments to the PI Trust and others will create additional tax deductions, which will inure to the benefit of the PI Trust in accordance with the Agreement. These include deductions for payments to the PI Trust of tax benefits associated with the utilization of the net operating losses created by the reorganization, and contributions made to the Raymark pension plan. If Raytech Corporation generates net operating losses in future periods, exclusive of net operating losses attributable to the payments discussed above, those net operating losses will be retained by the Company. The method of allocation in utilizing future net operating losses, if any, between the PI Trust and Raytech Corporation has not been determined at this time. Additional tax recoveries to be received in future periods are shown as deferred tax assets (net of deferred tax liabilities) and a deferred payable to the PI Trust which amounted to \$41.6 million at September 29, 2002.

The Company has filed for and received in 2002 Federal tax refunds of \$33.4 million. During the second quarter of 2002, the Agreement was modified to eliminate the holdback provision. As such, and pursuant to the Agreement as modified, Raytech has paid over to the Trust the entire amount of the refunds. Additionally, at September 29, 2002, the Company has a tax receivable in the amount of \$4.8 million relating to amounts due from state governments for returns filed in 2002. These refunds when received will be paid to the Trust.

The Company is under an IRS audit for 1996 through 2001. Any tax assessment, up to the amount of the refunds received, arising from this audit or any other years in the carryback period, are, pursuant to the Agreement, the responsibility of the PI Trust and will therefore reduce the deferred tax asset associated with, and liability payable to, the PI Trust.

The Company owns 57% of the stock of Allomatic Products Company ("APC"). The Company has not recorded a deferred tax liability for the undistributed earnings of APC since management expects that those earnings will be distributed to the Company in a tax-free transaction. However, the deferred tax liability on the undistributed earnings of APC would be approximately \$1.0 million at September 29, 2002, if all of APC's earnings were to be distributed through dividends.

Results of Operations for the Successor Company for the Period December 31, 2001 to March 31, 2002 and Predecessor Company for the Period January 1, 2001 to April 1, 2001

Net Sales

Worldwide net sales of \$52.7 million for the thirteen-week period ended March 31, 2002 compared to \$55.2 million for the same period in the prior year

Edgar Filing: RAYTECH CORP - Form 10-Q

for a decline of \$2.5 million or 4.5%. The details of the sales performance are presented below distinguishing the sales performance in each business segment.

The Wet Friction segment reported sales of \$32.1 million in the first quarter of 2002 compared to \$34.1 million in the same period in the prior year, a decline of \$2.0 million, representing a significant portion of the sales decline for the Company in the period. The primary market impacted is the heavy duty component of this segment in both Europe and domestically. The automobile OEM component of this segment reflected sales at the same level as 2001.

The Aftermarket segment recorded net sales of \$12.5 million for the thirteen-week period ended March 31, 2002 compared to \$13.1 million for the same period in the prior year, a decline of \$.6 million or 4.6%. The sales decline was due to a variety of issues including the mild winter weather, better inventory management at our customers and the improved quality of components at the OEM level.

The Dry Friction segment recorded sales of \$8.1 million for the first quarter of 2002 compared to \$8.0 million in the same period in the prior year. The sales reflect increased sales through the operation in China of \$1.3 million offset by reduced sales through the operation in Germany of approximately the same amount. The reduction in German sales includes a negative currency translation impact of approximately \$.4 million.

Gross Profit

The Company recorded gross profit of \$10.5 million for the thirteen-week period ended March 31, 2002 on sales of \$52.7 million yielding a gross margin percentage of 20.0%. This compares to a gross profit of \$11.4 million for the same period in the prior year on sales of \$55.2 million, a gross profit margin of 20.6%. The gross profit in 2002 was reduced by \$1.1 million due to increased depreciation and amortization as a result of the application of fresh-start accounting post first quarter of 2001. The impact of the increased amortization and depreciation was a reduction in the gross profit margin of 2.1%. On a comparable basis, the gross margin has increased period-over-period 1.5 percentage points due to cost reduction programs instituted throughout 2001 and the first quarter of 2002.

Selling, General and Administrative

The selling, general and administrative expenses for the thirteen-week period ended March 31, 2002 were \$7.6 million compared to \$7.7 million for the same period in the prior year, a reduction of \$.1 million or 1.3%. The lower costs reflect the impact of certain cost reduction programs implemented in 2001 balanced with Raytech's commitment to investing in technology for future growth.

Interest Expense

Interest expense for the first quarter of \$.3 million compares to interest expense, excluding Raymark interest, of \$.4 million in the same period in the prior year, a reduction of 25%. The reduction is due to lower rates in 2002 on domestic debt. The interest rate on foreign debt is approximately the same.

Operating Profits

The following discussion of operating results by industry segment relates to information contained in Note G - Segment Reporting to the Unaudited Condensed Consolidated Financial Statements. Operating profit is income before income taxes and minority interest.

Operating profit of \$2.8 million was recorded for the first quarter of

Edgar Filing: RAYTECH CORP - Form 10-Q

2002 compared to \$3.5 million for the same period in the prior year, a decrease of \$.7

-39-

million or 20%. The operating profit was negatively affected by the reduced sales period-over-period of \$2.5 million. Additionally, operating profits were reduced by the impact of fresh-start accounting due to the increase in depreciation and amortization of \$1.1 million in comparing first quarter 2002 to the first quarter of 2001.

The Wet Friction segment posted operating profits of \$1.5 million, an increase of \$.2 million over the same period in the prior year, an increase of 15%. This increase was accomplished on lower sales of \$2.0 million and was due to implementing cost reduction programs in 2001 and 2002.

The Aftermarket segment recorded operating profit for the quarter of \$2.6 million compared to \$2.1 million in the same period in the prior year, an increase of \$.5 million or 24%. The improved operating income performance is due to cost reduction programs initiated in 2001 and 2002 coupled with improved material pricing. Additionally, management works closely with the work force in this segment to maximize the peaks and valleys of manufacturing and shipping product in the aftermarket industry.

The Dry Friction segment recorded operating profit of \$.8 million for the thirteen-week period ended March 31, 2002 compared to \$.8 million in the same period in the prior year. The operating income reflects improved operating profits from the operation in China offset by reduced operating profit in Europe. The decline in Europe is due primarily to lower volume sales.

Income Taxes

The effective tax rate for the thirteen-week period ended March 31, 2002 was 38.5% compared to an effective rate of 42% for the same period in the prior year. The rate for the current period reflects a statutory federal rate adjusted for state and foreign taxes. The rate differs from the 2001 rate by 3.5 percentage points caused primarily by certain adjustments in the prior period related to the bankruptcy process.

Outlook

The Company's Wet Friction segment expects sales to improve for 2002 as compared to the results recorded in 2001 by an estimated 3%. The increase reflects the continued slow growth in the automotive original equipment market for Raytech related products as the automotive industry continues to outperform the general economy. Our customers in the automotive OEM are expected to continue to face competitive pressure from foreign competition from both Europe and Asia, which will provide increased pressure on the supplier base for continued cost reduction. The heavy duty component of the Wet Friction segment is expected to remain constant for the remainder of 2002. The markets served by this component of the Wet Friction segment, mainly construction, mining and agriculture, are expected to remain flat for the remainder of 2002.

The Aftermarket segment is expected to decline compared to 2001 by 6%. The slow economy in the United States is expected to continue to negatively impact this segment. Additionally, the continued improved quality of the original equipment manufacturers has pushed out the need for replacement parts. This trend is expected to continue in 2002, reducing the opportunity for increased sales. This segment continues to explore opportunities to expand its product offerings in the transmission aftermarket and will continue to explore opportunities in the upcoming year.

Edgar Filing: RAYTECH CORP - Form 10-Q

The Dry Friction segment is expected to increase revenues in 2002 over 2001 results by 17%. The development of new market opportunities in Asia is expected to continue through the expansion of our production facility in China, which was completed in June 2002. In 2001, this facility improved revenues substantially over 2000 results and is expected to continue the positive performance for the

-40-

remainder of 2002. The European revenues are expected to increase in 2002 due to modest growth in the overall European economy.

Raytech formed an expansion committee in 2001 consisting of key employees within the Company and skilled consultants from outside the Company. The expansion committee is reviewing existing business in the vehicular market, new product development in the vehicular markets and new product development in non-vehicular markets.

The Company's outlook for 2002 anticipates total revenues to exceed 2001 levels by 3% with improved operating profits reflective of the increased sales. There are many events which could negatively impact the Company's current view, including the impact of the economy worsening in the United States and around the world.

Financial Risks

The Company maintains lines of credit with United States and foreign banks, as well as other creditors. The Company is naturally exposed to various interest rate risk and foreign currency risk in its normal course of business.

The Company effectively manages its accounts receivable as evidenced by the average days sales in trade receivables of 46 days. This allows for minimum borrowings in supporting inventory and trade receivables. Management does not anticipate a significant change in fiscal policy in any of its borrowing markets in 2002 given current economic conditions. Further, the Company can reduce the short-term impact of interest rate fluctuation through deferral of capital investment should the need arise.

The local currencies of the Company's foreign subsidiaries have been designated as their functional currencies. Accordingly, financial statements of foreign operations are translated using the exchange rate at the balance sheet date for assets and liabilities, historical exchange rates for elements of stockholder's equity and an average exchange rate in effect during the period for revenues and expenses. Where possible, the Company attempts to mitigate foreign currency translation effects by borrowing in local currencies to fund operations. The Company does not believe that the fluctuation in foreign currency will have a material adverse effect on the Company's overall financial condition. Additionally, the Company does not enter into agreements to manage any currency transaction risks due to the immaterial amount of transactions of this type.

Liquidity and Capital Resources

The Company's cash and cash equivalents totaled \$18.1 million at September 29, 2002 compared to \$14.5 million at December 30, 2001. Capital investment for the thirty-nine week period totaled \$6.9 million. The level of capital investment is consistent with planned expenditures.

The debt at September 29, 2002 consists of the following:

Edgar Filing: RAYTECH CORP - Form 10-Q

	Current -----	Non-Current -----	Total -----
Domestic bank debt	\$ 7,890	\$ 2,000	\$ 9,890
Foreign bank debt	3,214	4,369	7,583
Leases	134	165	299
	-----	-----	-----
Total outstanding debt	\$ 11,238	\$ 6,534	\$17,772
	=====	=====	=====
Available lines of credit:			
Domestic	\$ 8,800		
Foreign	3,634		

Total available	\$ 12,434		
	=====		

-41-

The domestic debt is collateralized by accounts receivable, inventory and machinery and equipment. The accounts receivable and inventory components are determined using a formula based on the respective account balances. In the event accounts receivable and inventory were to decline, availability would also decline. Additionally, the agreement includes certain covenants, the most restrictive of which requires the borrowers to maintain minimum annual earnings before interest, taxes, depreciation and amortization of \$15 million. The foreign debt consists of both term notes and lines of credit. The lines of credit are payable on demand.

The Company does not maintain any off balance sheet debt, guarantees or other arrangements.

Future Liquidity

Concurrent with the effective date of the Plan, Raytech settled the Liabilities Subject To Compromise either through the issuance of common stock, payment in cash or the assumption of a liability of \$11.2 million for certain Raymark pension plans, among other resolutions. The Company has reached an agreement with the Internal Revenue Service ("IRS") and the Pension Benefit Guaranty Corporation ("PBGC") and has received a funding waiver under Revenue Procedure 94-41. The waiver provides for an extended period of time for funding this pre-2001 amount of \$6.5 million while keeping the annual funding going forward on a current basis. In September 2002, a contribution to the Plan was made of \$4.9 million satisfying the funding obligation through the 2001 Plan year. The pension plans have a current unfunded liability for pre-2001 funding of \$4.8 million.

Pursuant to the Tax Benefits Assignment and Assumption Agreement (the "Agreement"), all tax benefits received by the Company due to the reorganization are to be passed onto the PI Trust as received. At December 30, 2001, the Company had tax loss carryforwards of \$30.2 million and tax credit carryforwards of \$4.9 million, all of which will inure to the benefit of the PI Trust. Additionally, future payments to the PI Trust and others will create additional tax deductions, which will inure to the benefit of the PI Trust in accordance with the Agreement. These include deductions for payments to the PI Trust of tax benefits associated with the utilization of the net operating losses created by the reorganization, and contributions made to the Raymark pension plan. If Raytech Corporation generates net operating losses in future periods, exclusive

Edgar Filing: RAYTECH CORP - Form 10-Q

of net operating losses attributable to the payments discussed above, those net operating losses will be retained by the Company. The method of allocation in utilizing future net operating losses, if any, between the PI Trust and Raytech Corporation has not been determined at this time. Additional tax recoveries to be received in future periods are shown as deferred tax assets and a deferred payable to the PI Trust which amounted to \$41.6 million at September 29, 2002.

The Company is under an IRS audit for 1996 through 2001. Any tax assessment, up to the amount of the refunds received, arising from this audit or any other years in the carryback period, are, pursuant to the Agreement, the responsibility of the PI Trust and will therefore reduce the deferred tax asset associated with, and liability payable to, the PI Trust.

The Company is complying with a Federal Order issued by the U.S. Environmental Protection Agency (EPA) at its manufacturing facility in Crawfordsville, Indiana. The Company reevaluated the projected cost to complete this project during the third quarter of 2002 and determined that, based on work completed to date, the estimate previously received from its environmental engineering firm was not sufficient to complete the project. The Company has employed a new environmental engineering firm and a new construction company to complete this project. The scope of the cleanup plan has not changed, and the additional charge recorded during the third quarter is expected to be sufficient to complete this project. The Company, at September 29, 2002, recorded a charge

-42-

of \$5.4 million, which reflects the anticipated increase in costs to complete the project. The Company has an accrued liability of \$8.3 million at September 29, 2002, which is expected to provide for full remediation and fines in compliance with the Order. It is anticipated that substantially all of these costs will be paid in the next twelve months. The Company paid \$4.5 million during the thirty- nine-week period ended September 29, 2002.

Management believes that existing cash balances, availability under its existing credit facilities and cash flow from operations during 2002 will be sufficient to meet all of the Company's obligations arising in the normal course of business, including anticipated capital investments.

Recently Issued Accounting Pronouncements

In June 2002, the Financial Accounting Standards Board issued Financial Accounting Standard No. 146 (SFAS No. 146), "Accounting for Costs Associated with Exit or Disposal Activities." The objectives of SFAS No. 146 are to address financial accounting and reporting for costs associated with exit or disposal activities. SFAS No. 146 nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS No. 146 and Issue No. 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue No. 94-3, a liability for an exit cost as defined in Issue No. 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 will be effective for the Company for exit or disposal activities that are initiated beginning in fiscal 2003.

In May 2002, the Financial Accounting Standards Board issued Financial Accounting Standard No. 145 (SFAS 145) "Recision of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." The Statement rescinds Statement 4, which required all gains and losses from extinguishment of debt to be aggregated and, when material, classified as an extraordinary item net of the related income tax effect. FAS 145 also amends FAS

Edgar Filing: RAYTECH CORP - Form 10-Q

13 to require that certain lease modifications having economic effect similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. The provisions of SFAS 145 are effective for transactions occurring after May 15, 2002. It is not expected that SFAS 145 will have a material effect on our financial position or results of operations.

Safe Harbor Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under the "Market Conditions and Outlook" and "Future Liquidity" headings above and other statements herein that relate to future operating periods are subject to important risks and uncertainties that could cause actual results to differ materially. Forward-looking statements relating to the Company's businesses involve certain factors that are subject to change, including the many interrelated factors that affect consumer confidence, including worldwide demand for automotive and heavy duty products, general economic conditions, the environment, actions of competitors in the various industries in which the Company competes; production difficulties, including capacity and supply constraints; dealer practices; labor relations; interest and currency exchange rates; technological difficulties; accounting standards, and other risks and uncertainties. Further information, including factors that potentially could materially affect the Company's financial results, is included in the Company's filings with the Securities and Exchange Commission.

-43-

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2.

-44-

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, including the Company's President and Chief Executive Officer and Vice President, Treasurer, and Chief Financial Officer, have conducted an evaluation within the past 90 days of the effectiveness of disclosure controls and procedures pursuant to Exchange Act rule 13a-14. Based on that evaluation, the President and Chief Executive Officer and Vice President, Treasurer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective, in all material respects, in ensuring that all material information required to be filed in this quarterly report has been made known to them on a timely basis and that it has been properly recorded, processed, summarized and reported, as required.

Changes in Internal Controls

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date that management, including the President and Chief Executive Officer and Vice President, Treasurer and Chief Financial Officer, carried out its last evaluation. During the evaluation, no significant deficiencies or material weaknesses were identified.

-45-

PART II. OTHER INFORMATION

Edgar Filing: RAYTECH CORP - Form 10-Q

Item 1. Legal Proceedings

The Company is subject to certain legal matters that have arisen in the ordinary course of business, which management expects would not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company. In addition, the Company is involved in the following litigation.

In April 1996, the Indiana Department of Environmental Management ("IDEM") advised Raybestos Products Company ("RPC"), a wholly-owned subsidiary of the Company, that it may have contributed to the release of lead and PCB's (polychlorinated biphenyls) found in a drainage ditch near its Indiana facility. In June 1996, IDEM named RPC as a potentially responsible party ("PRP"). RPC notified its insurers of the IDEM action and one insurer responded by filing a complaint in January 1997 in the U.S. District Court, Southern District of Indiana, captioned Reliance Insurance Company vs. RPC seeking a declaratory judgment that any liability of RPC is excluded from its policy with RPC. In January 2000, the District Court granted summary judgment to RPC, indicating that the insurer has a duty to defend and indemnify losses stemming from the IDEM claim. In early 2001, Reliance paid \$500,000 to RPC as partial reimbursement for previously incurred defense costs. However, in June 2001, Reliance Insurance Company was placed in rehabilitation in Pennsylvania. The effect upon RPC's claim is not known at this time. Three additional insurers have been added to the Reliance case as ordered by the District Court. RPC has demanded \$15.55 million from the three carriers, none of which have responded as yet. Rather, the parties all have filed various motions which have not yet been heard by the Court. IDEM has turned the matter over to the U.S. Environmental Protection Agency ("EPA"). In December 2000, the EPA issued a Unilateral Administrative Order under CERCLA ("Order") demanding removal of contaminated soils from the referenced drainage ditch. RPC has prepared a plan for implementation, has begun remediation at the site and is in compliance with the cleanup Order. The Company has now quantified the costs to complete the project and at September 29, 2002 recorded a charge of \$5.4 million, which reflects the anticipated increase in costs. The Company has estimated that the cost to comply with the Order and related fines will be approximately \$14.5 million of which \$6.2 million has been spent through September 29, 2002. The remaining balance of \$8.3 million is included in accrued liabilities. It is at least reasonably possible that the assessment of estimated costs to comply with the Order may be modified as the project progresses and that there may be additional assessments from the EPA. Prior to IDEM's relinquishment of control of the cleanup to the EPA, IDEM and RPC had reached an Agreed Order providing for a risk-based remediation of the contamination different from the EPA's Order. IDEM withdrew from the Agreed Order, which was ruled to be a breach of contract by an Indiana State Superior Court. In July 2002, RPC filed an action against IDEM for damages determined to be the difference between the costs of cleanup under the EPA Order and the IDEM Agreed Order. Various motions have been filed by each party on which the Court has yet to rule. The outcome of this litigation is not known.

In February 2002, the Committee of Equity Holders filed a motion in the U.S. Bankruptcy Court asking for the distribution of the Company's shares to the general creditors under the Plan of Reorganization to be recalculated, claiming that the equity holders received less than the required percentage of shares. The ultimate outcome of this matter is unknown; however, it is possible that its resolution could cause the Company to issue additional shares, or to retire shares, in the future. This would directly impact the earnings per share calculations of the Company. At a preliminary hearing in April 2002, the Court

took the matter under advisement pending submission of position papers by the

Edgar Filing: RAYTECH CORP - Form 10-Q

parties. The Company has filed a motion for summary judgment asking the Court to dismiss the action, and the Committee has filed an objection. It is not known when the Court will rule on the motion.

The Company is in receipt of a letter from the Michigan Department of Environmental Quality ("MDEQ") alleging responsibility for trichloroethylene ("TCE") contamination at a Ferndale, Michigan, industrial site formerly occupied by Advanced Friction Materials Company ("AFM") from 1974 to 1985. AFM was acquired by the Company in 1998. The Company is cooperating with the MDEQ in evaluating the subsurface of the site to obtain data concerning the alleged contamination. A work plan has been approved by the MDEQ and the testing procedure has begun. Estimated costs of such evaluation should not exceed \$15 thousand. The Company's liability at this site is indeterminable at this time.

-47-

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Shareholders' Meeting of Raytech was held September 26, 2002. The matters submitted to stockholder vote and the vote count on the matters was as follows:

1. Proposal to elect eight Directors for one-year terms and until their respective successors are elected.

	For	Withheld
Albert A. Canosa	38,100,560	24,460
	-----	-----
Robert F. Carter	38,106,507	18,513
	-----	-----
Archie R. Dykes	38,106,507	18,513
	-----	-----
David N. Forman	38,106,501	18,519
	-----	-----
John H. Laeri	38,106,507	18,513
	-----	-----
Stanley J. Levy	38,106,501	18,519
	-----	-----
Richard A. Lippe	38,106,501	18,519
	-----	-----
Gene Locks	38,106,507	18,513
	-----	-----

2. Proposal to ratify the appointment of PricewaterhouseCoopers LLP as auditors for 2002:

For 37,874,327	Against 211,956	Abstain 5,319
-----	-----	-----

3. Proposal to approve the adoption of the 2002 Incentive Compensation Plan.

Edgar Filing: RAYTECH CORP - Form 10-Q

For 37,253,403

Against 277,232

Abstain 31,407

For purposes of determining whether a proposal has received a majority vote, abstentions will be included in the vote totals with the result that an abstention has the same effect as a negative vote. Under applicable Delaware law, "non-votes" will not be included in the vote totals of proposals voted and, therefore, will have no effect on the vote of that proposal. A "non-vote" occurs when a broker holding shares for a beneficial owner votes on one proposal but does not vote on another proposal because the broker does not have discretionary voting power and has not received instructions from the beneficial owner.

Pursuant to the vote of shareholders, proposal 1, 2 and 3 were adopted and effective on September 26, 2002.

The Director whose term of office as Director continued (for an additional two years) after the Annual Shareholders' Meeting includes:

Kevin S. Flannery

-48-

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed as part of this report.

None

(b) Reports on 8-K

None

-49-

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

RAYTECH CORPORATION

By: /s/JOHN B. DEVLIN

John B. Devlin
Vice President, Treasurer
and Chief Financial Officer

Date: November 13, 2002

-50-

CERTIFICATION OF CHIEF FINANCIAL OFFICER (SS.302)

I, John B. Devlin, Chief Financial Officer of Raytech Corporation (the "Issuer"), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, do hereby certify for purposes of the third quarter Form 10-Q Report ("Report") as follows:

Edgar Filing: RAYTECH CORP - Form 10-Q

- (1) I have reviewed the Report.
- (2) Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.
- (3) Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, and results of operations of the Issuer as of, and for, the periods presented in the Report.
- (4) The Issuer's other certifying officers and I:
 - (A) are responsible for establishing and maintaining internal controls;
 - (B) have designed such internal controls and procedures to ensure that material information relating to the Issuer, and its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the periodic Report is being prepared;
 - (C) have evaluated the effectiveness of the Issuer's internal controls as of a date within 90 days prior to the Report; and
 - (D) have presented in the Report our conclusions about the effectiveness of the internal controls based on our evaluation as of that date.
- (5) The Issuer's other certifying officers and I have disclosed to the Issuer's auditors and the audit committee of the Issuer's Board of Directors (or persons performing the equivalent function):
 - (A) all significant deficiencies in the design or operation of internal controls which could adversely affect the Issuer's ability to record, process, summarize and report financial data and have identified for the Issuer's auditors any material weaknesses in internal controls; and
 - (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the Issuer's internal controls; and
6. The Issuer's other certifying officers and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

IN WITNESS WHEREOF, I have executed this Certification this 13th day of November, 2002.

/s/JOHN B. DEVLIN

John B. Devlin
Vice President, Treasurer
and Chief Financial Officer

-51-

CERTIFICATION OF CHIEF EXECUTIVE OFFICER (SS.302)

I, Albert A. Canosa, President and Chief Executive Officer of Raytech Corporation (the "Issuer"), pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, do hereby certify for purposes of the third quarter Form 10-Q Report

Edgar Filing: RAYTECH CORP - Form 10-Q

("Report") as follows:

- (1) I have reviewed the Report.
- (2) Based on my knowledge, the Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.
- (3) Based on my knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition, and results of operations of the Issuer as of, and for, the periods presented in the Report.
- (4) The Issuer's other certifying officers and I:
 - (A) are responsible for establishing and maintaining internal controls;
 - (B) have designed such internal controls and procedures to ensure that material information relating to the Issuer, and its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the periodic Report is being prepared;
 - (C) have evaluated the effectiveness of the Issuer's internal controls as of a date within 90 days prior to the Report; and
 - (D) have presented in the Report our conclusions about the effectiveness of the internal controls based on our evaluation as of that date.
- (5) The Issuer's other certifying officers and I have disclosed to the Issuer's auditors and the audit committee of the Issuer's Board of Directors (or persons performing the equivalent function):
 - (A) all significant deficiencies in the design or operation of internal controls which could adversely affect the Issuer's ability to record, process, summarize and report financial data and have identified for the Issuer's auditors any material weaknesses in internal controls; and
 - (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the Issuer's internal controls; and
6. The Issuer's other certifying officers and I have indicated in the Report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

IN WITNESS WHEREOF, I have executed this Certification this 13th day of November, 2002.

/s/ALBERT A. CANOSA

Albert A. Canosa
President and
Chief Executive Officer

-52-

EXHIBITS

Exhibit 99(A) Certification of Chief Financial Officer (ss.906)

Edgar Filing: RAYTECH CORP - Form 10-Q

Exhibit 99(B) Certification of Chief Executive Officer (ss.906)

-53-