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RAYTECH CORP
Form 10-Q
May 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 March 31, 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

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As of May 9, 2002, 4,560,579 shares of the Registrant's common stock, par value \$1.00, were issued and outstanding.

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RAYTECH CORPORATION

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

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At	Successor Company	
	March 31, 2002 (unaudited)	December 30, 2001
ASSETS		
Current assets		
Cash and cash equivalents	\$ 15,538	\$ 14,463
Restricted cash	15,951	5,396
Trade accounts receivable, less allowance of \$727 for 2002 and \$729 for 2001	26,851	22,961
Inventories, net	29,944	31,562
Income taxes receivable	6,133	37,877
Other current assets	7,408	7,048
Total current assets	101,825	119,307
Property, plant and equipment	121,705	119,678
Less accumulated depreciation	(13,751)	(10,386)
Net property, plant and equipment	107,954	109,292
Intangible assets, net	72,234	72,790
Deferred income taxes	16,600	16,600
Other assets	2,552	2,799
Total assets	\$301,165	\$320,788

The accompanying notes are an integral part of these statements.

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

At	Successor Company	
	March 31, 2002 (unaudited)	December 30, 2001
LIABILITIES		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 10,723	\$ 10,262
Current portion of pension obligation	7,049	7,049
Accounts payable	13,003	13,268
Accrued liabilities	23,059	22,694
Payable to the PI Trust	15,913	38,022
Total current liabilities	69,747	91,295
Long-term debt	6,526	6,820

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Pension obligation	15,909	15,409
Postretirement benefits other than pensions	13,139	12,876
Deferred payable to the PI Trust	41,614	41,614
Other long-term liabilities	8,883	8,691

Total liabilities	155,818	176,705

COMMITMENTS & 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, 41,528,520 issued and		
outstanding		
	41,528	41,528
Additional paid in capital	116,843	116,843
Accumulated deficit	(4,247)	(5,577)
Accumulated other comprehensive loss	(8,777)	(8,711)

Total shareholders' equity	145,347	144,083

Total liabilities and		
shareholders' equity	\$ 301,165	\$ 320,788
=====		

The accompanying notes are an integral part of these statements.

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RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share data)
(unaudited)

	Successor Company March 31, 2002	Predecessor Company April 1, 2001
For the 13 Weeks Ended		
Net sales	\$ 52,709	\$ 55,205
Cost of sales	(42,184)	(43,811)

Gross profit	10,525	11,394
Selling, general and administrative expenses	(7,594)	(7,742)

Operating profit	2,931	3,652

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Interest expense	(277)	(374)
Interest expense - Raymark	--	(70)
Other income, net	179	290

Income before provision for income taxes and minority interest	2,833	3,498
Provision for income taxes	(1,091)	(1,469)

Income before minority interest	1,742	2,029
Minority interest	(412)	(314)

Net income	\$ 1,330	\$ 1,715
=====		
Basic earnings per share	\$.03	\$.49
=====		
Diluted earnings per share	\$.03	\$.48
=====		

The accompanying notes are an integral part of these statements.

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RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	Successor Company March 31, 2002	Predecessor Company April 1, 2001

For the 13 Weeks Ended		

Net cash provided by (used in) operating activities	\$ 3,481	\$ (863)

Cash flow from investing activities:		
Capital expenditures	(2,755)	(2,717)
Proceeds on sales of property, plant and equipment	62	10

Net cash used in investing activities	(2,693)	(2,707)

Cash flow from financing activities:		
Cash overdraft	-	(371)
Net borrowings on short term notes	529	2,113
Principal payments on long-term debt	(262)	(482)
Proceeds from long-term borrowings	54	32
Net proceeds on borrowings from Raymark	--	171

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Net cash provided by financing activities	321	1,463
Effect of exchange rate changes on cash	(34)	(78)
Net change in cash and cash equivalents	1,075	(2,185)
Cash and cash equivalents at beginning of period	14,463	13,917
Cash and cash equivalents at end of period	\$ 15,538	\$11,732

The accompanying notes are an integral part of these statements.

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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			1,715		
Changes during the period				(284)	
Total comprehensive income			1,715	(284)	
Balance, April 1, 2001	\$ 5,651	\$ 70,631	\$ (7,047,926)	\$ (1,502)	\$ (4,561)

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SUCCESSOR COMPANY

Balance,						
December 30, 2001	\$41,528	\$116,843	\$	(5,577)	\$ (8,711)	\$ -
Comprehensive income:						
Net income				1,330		
Changes during the period					(66)	

Total comprehensive income				1,330	(66)	

Balance,						
March 31, 2002	\$41,528	\$116,843	\$	(4,247)	\$ (8,777)	\$ -
=====						

The accompanying notes are an integral part of these statements.

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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 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)

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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.

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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 the high percentage of ownership in Raytech. In addition, Raytech has recorded the liability for the Raymark pension plan claim though the outcome of this claim is still subject to final Court decision. 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

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Raymark Trustee has insufficient recovery of funds for such purposes up to \$1 million. To date, \$.8 million has been paid to the Raymark Trustee under this backstop provision. Also, on the Effective Date, the Board of Directors was increased to nine with one appointed by the equity committee and the remaining directors appointed by the unsecured creditors' committee. See Note C - Fresh-Start Reporting.

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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 March 31, 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.

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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 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."

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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.

Note D - Inventories

Inventories, net consist of the following:

	Successor Company	
	March 31, 2002 (Unaudited)	December 30, 2001
	-----	-----
Raw material	\$ 9,305	\$ 10,829
Work in process	7,880	7,207
Finished goods	12,759	13,526
	-----	-----
	\$ 29,944	\$ 31,562
	=====	=====

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NOTE E - Earnings Per Share

	For the 13 Weeks Ended	
	Successor Company March 31, 2002	Predecessor Company April 1, 2001
	-----	-----
Basic EPS Computation		
Numerator:		
Net income	\$ 1,330	\$ 1,715
Denominator:		
Weighted average shares	41,528,520	3,519,313
Basic earnings per share	\$.03	\$.49
	=====	=====

Diluted EPS Computation

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Numerator:

Net income	\$ 1,330	\$ 1,715
------------	----------	----------

Denominator:

Weighted average shares	41,528,520	3,519,313
Dilutive potential common shares	37,304	18,133
	-----	-----
Adjusted weighted average shares and equivalents	41,565,824	3,537,446
Diluted earnings per share	\$.03	\$.48
	=====	=====

Options to purchase 380,453 and 487,550 shares of common stock at \$4.25 were outstanding during the thirteen weeks ended March 31, 2002 (Successor Company) and April 1, 2001 (Predecessor Company), respectively, but were not included in the computation of diluted earnings per share because the option's exercise price was greater than average market price of the common shares during each period.

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.

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Note F - 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 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

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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:

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NOTE F, continued

OPERATING SEGMENTS

	For the 13 Weeks Ended	
	Successor Company March 31, 2001 -----	Predecessor Company April 1, 2001 -----
Wet FRICTION		
Net sales to external customers	\$ 32,115	\$ 34,073
Intersegment net sales (1)	2,233	2,974
	-----	-----
Total net sales	\$ 34,348	\$ 37,047
	=====	=====
Operating profit (2)	\$ 1,513	\$ 1,327
	=====	=====
AFTERMARKET		
Net sales to external customers	\$ 12,471	\$ 13,101
Intersegment net sales (1)	13	10
	-----	-----
Total net sales	\$ 12,484	\$ 13,111
	=====	=====
Operating profit (2)	\$ 2,558	\$ 2,109
	=====	=====
DRY FRICTION		
Net sales to external customers	\$ 8,123	\$ 8,031
Intersegment net sales (1)	30	116
	-----	-----
Total net sales	\$ 8,153	\$ 8,147
	=====	=====
Operating profit (2)	\$ 755	\$ 754
	=====	=====
CORPORATE		
Operating loss (2,3)	\$ (1,993)	\$ (692)

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	=====	=====
TOTAL SEGMENTS		
Net sales to external customers	\$ 52,709	\$ 55,205
Intersegment net sales (1)	2,276	3,100
	-----	-----
Total net sales	\$ 54,985	\$ 58,305
	=====	=====
Consolidated operating profit (2)	\$ 2,833	\$ 3,498
	=====	=====

- (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.

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Note G - Income Taxes

The effective tax rate for the thirteen-week period ended March 31, 2002 is 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% caused primarily by certain adjustments in the prior period related to the bankruptcy process.

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, subject to a holdback provision. At December 30, 2001, the Company has 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 operating losses created by the reorganization, and contributions made to the Raymark pension plan. If Raytech Corporation generates losses in future periods, exclusive of losses attributable to the payments discussed above, those losses will be retained by the Company. The method of allocation in utilizing future 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 March 31, 2002.

The Company has filed for and received in 2002 Federal tax refunds of \$32 million. Pursuant to the Agreement, Raytech has paid over to the Trust \$22.5 million of the refund and retained \$9.7 million as required by the holdback provision of the Agreement, which is included in restricted cash and as a current payable to the PI Trust at March 31, 2002. Additionally, at March 31,

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2002, the Company has recorded a tax receivable in the amount of \$6.1 million relating to \$4.8 million due from state governments for returns filed in 2002 and \$1.3 million in additional Federal tax refunds for the carryback period related to certain tax law changes enacted in 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 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 March 31, 2002, if all of APC's earnings were to be distributed through dividends.

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Note H - 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			
	March 31, 2002		December 30, 2001	
	Gross Carrying Amount -----	Accumulated Amortization -----	Gross Carrying Amount -----	Accumulated Amortization -----
Finite life intangible assets:				
Unpatented technology	\$16,262	\$ 1,940	\$16,262	\$1,455
Distribution base	5,716	284	5,716	213
	-----	-----	-----	-----
Sub-total	21,978	\$ 2,224	21,978	1,668
	-----	-----	-----	-----

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Indefinite life intangible assets:		
Trademarks	17,713	17,713
	-----	-----
Goodwill	34,767	34,767
	-----	-----
Intangible assets, net	\$72,234	\$72,790
	=====	=====

The weighted-average amortization periods for the unpatented technology and the distribution base are 6 and 20 years, respectively. Amortization expense for the thirteen weeks ended March 31, 2002 amounted to \$556.

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Note H, 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. There were no changes in the carrying amount of trademarks or goodwill during the thirteen weeks ended March 31, 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 13
	Weeks Ended
	April 1, 2001

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

Adjusted net income	\$ 1,922
	=====

Basic earnings per share:

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Reported net income	\$.49
Goodwill amortization		.06

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

Goodwill amortization		.06

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

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Note I - 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. 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. 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 given notice that it intends to comply with the Order and has designated a contractor and project coordinator as required. RPC prepared a plan for implementation and has begun carrying out the cleanup Order. The Company has estimated that the cost to comply with the Order and related fines will be approximately \$9.1 million of which \$2.3 million has been spent through March 31, 2002. The remaining balance of \$6.8 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.

In December 1998, the trustee of Raymark, Raytech and the Raytech creditors' committee joined in filing an adversary proceeding (complaint) against Craig R. Smith, et al. (including relatives, business associates and controlled corporations) in the U.S. District Court in Hartford, Connecticut, captioned Lauren Ryan, Trustee, et al. vs. Craig R. Smith, et al. alleging a systematic stripping of assets belonging to Raymark in an elaborate and ongoing scheme perpetrated by the defendants. The alleged fraudulent scheme extended back to the 1980's and continued up to this action and enriching the Smith family by an estimated \$12 million and their associates, while depriving Raymark and its creditors of nearly all of its assets amounting to more than \$27

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million. Upon motion of the plaintiffs, the Court issued a temporary restraining order stopping Mr. Smith and all defendants from dissipating, conveying, encumbering or otherwise disposing of any assets, which order was amended several times and became a preliminary injunction. A motion for summary judgment was filed by the plaintiffs and was ruled upon in March 2001. The Court ruled that defendants (Smith, et al.) as fiduciaries owed a duty to Raymark's creditors, that the transfer of \$8.5 million of funds, specifically earmarked for tort claims, to Smith related entities was a breach of that fiduciary duty, was a fraudulent transfer and was an unjust enrichment to the Smith family. Pending final judgment on the ruling, the Court set a trial on the remaining issues for November 2001. Just prior to the start of the trial, the Court strongly urged the parties to settle resulting in negotiations and a

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Note I, continued

tentative settlement causing the trial to be vacated. The settlement was completed in January 2002 and included payments of \$.5 million and Allomatic Products Company stock held by Smith and related parties to Raymark. Allomatic Products Company is a majority-owned subsidiary of Raytech, of which Raytech owns 57%. Smith and related parties owned approximately 40% prior to the settlement with Raymark.

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 parties.

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. A study is underway to determine the environmental conditions at the site, the Company's potential liability and other potentially responsible parties. The Company's liability is indeterminable at this time.

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Note J - 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 for \$11.2 million for certain Raymark pension plans, among other resolutions. The pension plans have a current unfunded liability for pre-2001 funding for \$6.5 million. The Company is working with the Internal Revenue Service (IRS) and the PBGC to obtain a funding waiver under Revenue Procedure 94-41. The request for waiver was filed with the IRS on February 28, 2002. The waiver, if granted, would provide 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. The funding required for the 2001 pension funding period would be approximately \$3.3 million, the anticipated funding for the pre-2001 period amount would be approximately \$1.6 million

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annually for five years. The total payment due through September 15, 2002 would amount to \$6.5 million. In December 2001, the Company and the PBGC entered into an escrow agreement, which is intended to reflect the Company's intent to fund subject to receiving the waiver. The escrow account was funded with \$3.0 million in December 2001 and an additional \$1.2 million in January 2002 for a total of \$4.2 million, which is included in restricted cash at March 31, 2002. The remaining funding requirement in 2002 for the 2001 plan year and the pre-2001 period is \$2.3 million. In the event that the waiver from the IRS is not granted, the funding requirements for 2001 would be \$12.3 million. This would require additional borrowings by the Company. The Company anticipates that additional borrowings would be available using assets of the Company not currently pledged as collateral for its existing debt. The Company expects to be successful in receiving this waiver.

The Plan also sets forth a Tax Benefits Assignment and Assumption Agreement between the Company and the PI Trust, which provides that the tax benefits received by the Company due to the reorganization be passed onto the PI Trust as received, subject to a holdback provision (see Note G - Income Taxes). In January 2002, the Company filed its 2001 Federal tax return for the Raytech consolidated group and received a tax refund of \$32.1 million of which \$22.5 million was forwarded to the PI Trust and \$9.7 million is being held as a holdback amount and has been recorded as part of the Company's restricted cash. The remaining current receivable of \$6.1 million represents taxes due from state governments and additional amounts due from the Federal Government due to certain changes in the tax laws enacted in 2002. These returns were filed in 2002. At March 31, 2002, the Company has a payable to the PI Trust in the amount of \$15.9 million.

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 has an accrued liability of \$6.8 million at March 31, 2002, which should 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 2002 fiscal year. The Company paid \$.6 million during the thirteen-week period ended March 31, 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. In the event that the waiver is not obtained for the Raymark pension funding, additional borrowings will be required.

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Note K - Restricted Cash

Restricted cash relates to the following:

	For the 13 Weeks Ended	
	Successor Company	
	March 31, 2002	December 30, 2001
	-----	-----
Pension escrow	\$ 4,200	\$3,000
Letters of credit	1,677	1,986
PI Trust	9,664	--
Other	410	410
	-----	-----

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\$15,951	\$5,396
=====	=====

The letters of credit collateralize certain obligations relating primarily to workers' compensation. The PI Trust relates to the holdback amount more fully discussed in Note G - Income Taxes. The pension escrow account is discussed in Note J - Liquidity.

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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

Raytech Corporation recorded net income of \$1.3 million for the thirteen-week period ended March 31, 2002 or \$.03 per basic share compared to \$1.7 million or \$.49 per basic share in the same period in the prior year. The reduced earnings of \$.4 million is due to the increased depreciation and amortization recorded during the period due to the implementation of fresh-start accounting in April 2001 upon Raytech's emergence from bankruptcy offset by increased margins. The cost reduction programs implemented in 2001 improved earnings on lower sales when comparing the period-over-period results.

In April 2001, Raytech Corporation emerged from the protection of 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 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.

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

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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 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.

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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.

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 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.

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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

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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 F - 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 2002 compared to \$3.5 million for the same period in the prior year, a decrease of \$.7 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 is 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% caused primarily by certain adjustments in the prior period related to the

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bankruptcy process.

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, subject to a holdback provision. At December 30, 2001, the Company has tax loss carryforwards of \$30.2 million and tax credit carryforwards of \$4.9 million,

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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 operating losses created by the reorganization, and contributions made to the Raymark pension plan. If Raytech Corporation generates losses in future periods, exclusive of losses attributable to the payments discussed above, those losses will be retained by the Company. The method of allocation in utilizing future 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 March 31, 2002.

The Company has filed for and received in 2002 Federal tax refunds of \$32 million. Pursuant to the Agreement, Raytech has paid over to the Trust \$22.5 million of the refund and retained \$9.7 million as required by the holdback provision of the Agreement, which is included in restricted cash and as a current payable to the PI Trust at March 31, 2002. Additionally, at March 31, 2002, the Company has recorded a tax receivable in the amount of \$6.1 million relating to \$4.8 million due from state governments for returns filed in 2002 and \$1.3 million in additional Federal tax refunds for the carryback period related to certain tax law changes enacted in 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 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 March 31, 2002, if all of APC's earnings were to be distributed through dividends.

Outlook

In developing the outlook for the 2002 year, the impact on the United States and world economies from the terrorists' attack, which occurred on September 11, 2001, is unknown. The U.S. automakers have responded to the potential drop in demand with financing packages which have, through the end of 2001, increased sales. The impact from the terrorists' attack and the retaliation by the United States will undoubtedly have an impact on the future economy; however, at this point it is not possible to quantify that impact.

The Company's Wet Friction segment expects sales to decline in 2002 as compared to the results recorded in 2001 by an estimated 5%. The reduction reflects the continued slowdown in the automotive original equipment market as

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the United States economy recovers at a slow pace during 2002. 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 Company was successful in expanding its supplier position with General Motors Corporation and the new production, which will begin in the second quarter of 2002, will partially offset the negative effects of both pricing and the slow economy as these issues impact the Wet Friction segment. The heavy duty component of the Wet Friction segment is expected to decline in 2002 due to competitive pressure

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on pricing and the loss of certain business due to foreign production. The markets served by this component of the Wet Friction segment, mainly construction, mining and agriculture, are not expected to grow significantly in 2002; therefore, increased production is not expected.

The Aftermarket segment is expected to remain at the same level as 2001. The slow economy in the United States is expected to continue to negatively offset growth for 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 2002.

The Dry Friction segment is expected to increase revenues in 2002 over 2001 results. The development of new market opportunities in Asia is expected to continue through the planned expansion of our production facility in China. In 2001, this facility improved revenues substantially over 2000 results and is expected to continue the positive performance in 2002. The European revenues are expected to increase in 2002 due to modest growth in the overall European economy.

The Company's outlook for 2002 anticipates total revenues to be at 2001 levels as well as comparative operating profits. 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 in the world, the impact of the war on terrorism on the economy and the level of uncertainty perceived by the consumers in the markets the Company serves.

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 43 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

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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.

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Liquidity and Capital Resources

The Company's cash and cash equivalents totaled \$15.5 million at March 31, 2002 compared to \$14.5 million at December 30, 2001. Capital investment for the three-month period totaled \$2.8 million. The level of capital investment is consistent with planned expenditures in both periods.

The debt at March 31, 2002 consists of the following:

	Current -----	Non-Current -----	Total -----
Domestic bank debt	\$ 7,087	\$2,500	\$ 9,587
Foreign bank debt	3,489	3,808	7,297
Leases	147	218	365
	-----	-----	-----
Total outstanding debt	\$10,723	\$6,526	\$17,249
	=====	=====	=====
Available lines of credit:			
Domestic	\$ 4,985		
Foreign	1,512		

Total available	\$ 6,497		

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 for \$11.2 million for certain Raymark pension plans among other resolutions. The pension plans have a current unfunded liability for pre-2001 funding for \$6.5 million. The Company is working with the Internal Revenue Service (IRS) and the PBGC to obtain a funding waiver under Revenue Procedure 94-41. The request for waiver was filed with the IRS on February 28, 2002. The waiver, if granted, would provide for an extended period

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of time for funding this pre-2001 amount of \$6.5 million while keeping the annual funding going forward on a current basis. The funding required for the 2001 pension funding period would be approximately \$3.3 million, the anticipated funding for the pre-2001 period amount would be approximately \$1.6 million annually for five years. The total payment due through September 15, 2002 would amount to \$6.5 million. In December 2001, the Company and the PBGC entered into an escrow agreement, which is intended to reflect the Company's intent to fund subject to receiving the waiver. The escrow account was funded with \$3.0 million in December 2001 and an additional \$1.2 million in January 2002 for a total of \$4.2 million, which is included in restricted cash at March 31, 2002. The remaining funding requirement in 2002 for the 2001 Plan year and the pre-2001 period is \$2.3 million. In the event that the waiver from the IRS is not granted, the funding requirements for 2001 would be \$12.3 million. This would require additional borrowings by the Company. The Company anticipates that additional borrowings would be available using assets of the

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Company not currently pledged as collateral for its existing debt. The Company expects to be successful in receiving this waiver.

The Plan also set forth a Tax Benefits Assignment and Assumption Agreement between the Company and the Raytech Corporation Asbestos Personal Injury Settlement Trust (the "Trust"), which provides that the tax benefits received by the Company due to the reorganization be passed onto the Trust as received, subject to a holdback provision. See Note G to the Unaudited Condensed Consolidated Financial Statements for more details. At December 30, 2001, the Company had recorded as a current asset, Income Tax Receivable \$37.9 million with a corresponding liability, payable to the PI Trust. In January 2002, the Company filed its 2001 Federal tax return for the Raytech consolidated group and received a tax refund of \$32.1 million of which \$22.5 was forwarded to the Trust and \$9.7 is being held as a holdback amount. The remaining current receivable of \$6.1 million represents taxes due from state governments of \$4.8 million, which were filed in April 2002, and an additional \$1.3 million in Federal tax refunds for the carryback period related to certain rule changes enacted in 2002 by the IRS.

The Company is under audit for 1996 through 2001. Any tax assessment, up to the amount of the refunds received, arising from this audit, or the future audit of the current year, 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 has an accrued liability of \$6.8 million at March 31, 2002, which should 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 2002 fiscal year. The Company paid \$.6 million during the thirteen- week period ended March 31, 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. In the event that the waiver is not obtained for the Raymark pension funding, additional borrowings will be required. The Company expects to be able to obtain the additional borrowings, if necessary.

Safe Harbor Statement

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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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2.

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PART II. OTHER INFORMATION

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. 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. 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 given notice that it intends to comply with the Order and has designated a contractor and project coordinator as required. RPC prepared a plan for implementation and has begun carrying out the cleanup Order. The Company has estimated that the cost to comply with the Order and related fines will be approximately \$9.1 million of which \$2.3 million has been spent through March 31, 2002. The remaining balance of \$6.8 million is included in accrued liabilities. It is at least reasonably possible that the

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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.

In December 1998, the trustee of Raymark, Raytech and the Raytech creditors' committee joined in filing an adversary proceeding (complaint) against Craig R. Smith, et al. (including relatives, business associates and controlled corporations) in the U.S. District Court in Hartford, Connecticut, captioned Laureen Ryan, Trustee, et al. vs. Craig R. Smith, et al. alleging a systematic stripping of assets belonging to Raymark in an elaborate and ongoing scheme perpetrated by the defendants. The alleged fraudulent scheme extended back to the 1980's and continued up to this action and enriching the Smith family by an estimated \$12 million and their associates, while depriving Raymark and its creditors of nearly all of its assets amounting to more than \$27 million. Upon motion of the plaintiffs, the Court issued a temporary restraining order stopping Mr. Smith and all defendants from dissipating, conveying, encumbering or otherwise disposing of any assets, which order was amended several times and became a preliminary injunction. A motion for summary judgment was filed by the plaintiffs and was ruled upon in March 2001. The Court ruled that defendants (Smith, et al.) as fiduciaries owed a duty to Raymark's creditors, that the transfer of \$8.5 million of funds, specifically earmarked for tort claims, to Smith related entities was a breach of that

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fiduciary duty, was a fraudulent transfer and was an unjust enrichment to the Smith family. Pending final judgment on the ruling, the Court set a trial on the remaining issues for November 2001. Just prior to the start of the trial, the Court strongly urged the parties to settle resulting in negotiations and a tentative settlement causing the trial to be vacated. The settlement was completed in January 2002 and included payments of \$.5 million cash and Allomatic Products Company stock held by Smith and related parties to Raymark. Allomatic Products Company is a majority-owned subsidiary of Raytech, of which Raytech owns 57%. Smith and related parties owned approximately 40% prior to the settlement with Raymark.

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 parties.

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. A study is underway to determine the environmental conditions at the site, the Company's potential liability and other potentially responsible parties. The Company's liability is undeterminable at this time.

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Item 6. Exhibits and Reports on Form 8-K

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(a) Exhibits

None

(b) Reports on 8-K

None

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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: May 13, 2002

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