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RAYTECH CORP  
Form 10-Q  
May 14, 2003

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 30, 2003, 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 is an accelerated filer (as defined in Rule 12b-2 of the Act).

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 April 28, 2003, 41,737,306 shares of common stock were outstanding and the aggregate market value of these shares (based upon the closing price of Raytech common stock on the New York Stock Exchange) on such date held by non-affiliates was approximately \$53.4 million.

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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	March 30, 2003 (unaudited) -----	December 29, 2002 ----
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 13,813	\$ 19,983
Restricted cash	2,028	2,027
Trade accounts receivable, less allowance of \$853 and \$824	30,774	26,640
Inventories, net	33,535	34,057
Income taxes receivable	4,793	4,793
Other current assets	5,987	5,078
	-----	-----
Total current assets	90,930	92,578
	-----	-----
Property, plant and equipment	133,523	131,378
Less accumulated depreciation	(29,221)	(25,257)
	-----	-----
Net property, plant and equipment	104,302	106,121
	-----	-----
Intangible assets, net	70,006	70,562
Deferred income taxes	21,906	21,906
Other assets	2,969	3,054
	-----	-----
Total assets	\$290,113	\$294,221
	=====	=====
<b>LIABILITIES</b>		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 11,774	\$ 15,091
Current portion of pension obligation	8,030	8,030
Accounts payable	16,454	15,089
Accrued liabilities	23,917	26,258
Payable to the PI Trust	4,793	4,793
	-----	-----
Total current liabilities	64,968	69,261
	-----	-----
Long-term debt	4,564	4,293
Pension obligation	12,140	12,815
Postretirement benefits other than pension	14,004	13,800
Deferred payable to the PI Trust	42,356	42,356
Other long-term liabilities	831	827
	-----	-----
Total liabilities	138,863	143,352
	-----	-----
Minority interest	9,032	8,759
Commitments and contingencies		
<b>SHAREHOLDERS' EQUITY</b>		
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, 41,701,554 and 41,701,554 issued and outstanding	41,701	41,701
Additional paid in capital	117,458	117,458
Accumulated deficit	(8,475)	(8,402)

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Accumulated other comprehensive loss	(8,466)	(8,647)
	-----	-----
Total shareholders' equity	142,218	142,110
	-----	-----
Total liabilities and shareholders' equity	\$290,113	\$294,221
	=====	=====

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)

For the 13 Weeks Ended	March 30, 2003	March 31, 2002
	-----	-----
Net sales	\$ 55,735	\$ 52,709
Cost of sales	(46,850)	(42,184)
	-----	-----
Gross profit	8,885	10,525
Selling, general and administrative expenses	(8,279)	(7,594)
	-----	-----
Operating profit	606	2,931
Interest expense	(237)	(277)
Other income, net	15	179
	-----	-----
Income before provision for income taxes and minority interest	384	2,833
Provision for income taxes	(184)	(1,091)
	-----	-----
Income before minority interest	200	1,742
Minority interest	(273)	(412)
	-----	-----
Net (loss) income	\$ (73)	\$ 1,330
	=====	=====
Basic (loss) earnings per share	\$ (.00)	\$ .03
	=====	=====
Diluted (loss) earnings per share	\$ (.00)	\$ .03
	=====	=====

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)

For the 13 Weeks Ended	March 30, 2003	March 31, 2002
	-----	-----
Cash flows from operating activities:		
Net (loss) income	\$ (73)	\$ 1,330
Depreciation and amortization	4,607	3,672
Other operating activities	(5,669)	(1,521)
	-----	-----
Net cash (used in) provided by operating activities	(1,135)	3,481
	-----	-----
Cash flow from investing activities:		
Capital expenditures	(1,800)	(2,755)
Proceeds on sales of property, plant and equipment	--	62
	-----	-----
Net cash used in investing activities	(1,800)	(2,693)
Cash flow from financing activities:		
Net (payments) borrowings on short-term notes	(3,393)	529
Principal payments on long-term debt	(17)	(262)
Proceeds from long-term borrowings	131	54
	-----	-----
Net cash (used in) provided by financing activities	(3,279)	321
Effect of exchange rate changes on cash	44	(34)
Net change in cash and cash equivalents	(6,170)	1,075
Cash and cash equivalents at beginning of period	19,983	14,463
	-----	-----
Cash and cash equivalents at end of period	\$ 13,813	\$15,538
	=====	=====

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)  
 (unaudited)

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	Common Stock -----	Additional Paid in Capital -----	Accumulated Deficit -----	Accumulated Other Comprehensive Loss ----	Total -----
Balance, December 30, 2001	\$41,528	\$116,843	\$ (5,577)	\$ (8,711)	\$ 144,083
Comprehensive income:					
Net income	--	--	1,330	--	1,330
Changes during the period	--	--	--	(66)	(66)
Total comprehensive income	--	--	1,330	(66)	1,264
Balance, March 31, 2002	\$41,528 =====	\$116,843 =====	\$ (4,247) =====	\$ (8,777) =====	\$ 145,347 =====
Balance, December 29, 2002	\$41,701	\$117,458	\$ (8,402)	\$ (8,647)	\$ 142,110
Comprehensive income:					
Net loss	--	--	(73)	--	(73)
Changes during the period	--	--	--	181	181
Total comprehensive income	--	--	(73)	181	108
Balance, March 30, 2003	\$41,701 =====	\$117,458 =====	\$ (8,475) =====	\$ (8,466) =====	\$ 142,218 =====

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 - Summary of Significant Accounting Policies

For a summary of all other significant accounting policies, refer to Note A to the consolidated financial statements included with the 2002 Form 10-K.

1. Presentation of Condensed Unaudited Consolidated Financial Statements

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These condensed unaudited consolidated financial statements 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 30, 2003 and the consolidated results of operations and cash flows for all interim periods presented. All adjustments are of a normal recurring nature. 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 29, 2002. Interim results are not necessarily indicative of the results for the full year.

### 2. Stock-Based Compensation

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," encourages a fair value based method of accounting for employee stock options and similar equity instruments, which generally would result in the recording of additional compensation expense in the Company's financial statements. The Statement also allows the Company to continue to account for stock-based employee compensation using the intrinsic value for equity instruments using APB Opinion No. 25. The Company has adopted the disclosure-only provisions of SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." Accordingly, no compensation cost has been recognized for the stock option plans in the accompanying financial statements.

SFAS No. 123, as amended by SFAS No. 148, requires the Company to disclose pro forma net income and pro forma earnings per share amounts as if compensation expense was recognized for options granted after 1994. Pro forma net income and the related basic and diluted earnings per share amounts would be as follows:

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Note A, continued

	For the 13 Weeks Ended	
	March 30, 2003	March 31, 2002
	(unaudited)	
Net (loss) income:		
As reported	\$ (73)	\$ 1,330
Less: Total stock-based employee compensation expense determined under fair value based method	(413)	--
Pro forma net (loss) income	\$ (486)	\$ 1,330
Basic (loss) earnings per share:		
As reported	\$ (.00)	\$ .03
Pro forma	\$ (.01)	\$ .03
Diluted (loss) earnings per share:		

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As reported	\$ (.00)	\$ .03
Pro forma	\$ (.01)	\$ .03

During the thirteen weeks ended March 30, 2003, the Company granted options for 1,601,000 shares of common stock with an exercise price of \$5.70 per share. The fair value of these options was estimated at \$3.22 per common share on the date of grant, using the Black-Scholes option pricing model with the following assumptions: expected volatility of 56.7%, dividend yield of 0.00%, risk free interest rate of 3.60% and an expected life of the options of six years.

There was no pro forma impact on net income for the thirteen weeks ended March 31, 2002, as all options outstanding during the period were fully vested in 1999. The fair value of these options, which were granted during 1998, was estimated at \$2.01 per common share on the date of grant, using the Black Scholes option pricing model with the following assumptions: expected volatility of 54%, dividend yield of 0.00%, risk free interest rate of 5.42% and an expected life of the options of four years.

### Note B - Inventories

Inventories, net, consist of the following:

	March 30, 2003 (Unaudited)	December 29, 2002 (Unaudited)
Raw material	\$ 10,868	\$ 11,049
Work in process	8,494	8,349
Finished goods	14,173	14,659
	-----	-----
	\$ 33,535	\$ 34,057
	=====	=====

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### Note C - Earnings Per Share

	For the 13 Weeks Ended	
	March 30, 2003	March 31, 2002
	-----	-----
	(Unaudited)	
Basic EPS Computation		
Numerator:		
Net (loss) income	\$ (73)	\$ 1,330
Denominator:		
Weighted average shares	41,701,554	41,528,520
Basic (loss) earnings per share	\$ (.00)	\$ .03
	=====	=====



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### Diluted EPS Computation

#### Numerator:

Net (loss) income	\$ (73)	\$ 1,330
-------------------	---------	----------

#### Denominator:

Weighted average shares	41,701,554	41,528,520
-------------------------	------------	------------

Dilutive potential common shares	--	37,304
	-----	-----

Adjusted weighted average shares and equivalents	41,701,554	41,565,824
---	------------	------------

Diluted (loss) earnings per share	\$ (.00)	\$ .03
	=====	=====

Options to purchase 326,411 shares of common stock at \$4.25 per share and options to purchase 1,601,000 shares of common stock at \$5.70 per share were not included in the computation of diluted earnings per share for the thirteen weeks ended March 30, 2003 because of their anti-dilutive effect due to the Company incurring a net loss for the period.

Options to purchase 380,453 shares of common stock at \$4.25 per share were outstanding during the thirteen weeks ended March 31, 2002 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 the period.

In February 2002, lawyers claiming to represent the Committee of Equity Holders filed a motion in U.S. Bankruptcy Court to compel Raytech to either issue up to approximately 700,000 additional shares to the pre-reorganization holders of shares in Raytech or their successors or to proportionately reduce the shareholdings of the general unsecured creditor shareholders under the Plan of Reorganization. The ultimate outcome of this matter is unknown; however, it is possible that its resolution could cause the Company to issue additional shares to the original shareholder group, or to retire shares held by the general unsecured creditor shareholder group. This might directly impact the earnings per share calculations of the Company. The Company has filed a motion for summary judgment asking the Court to dismiss the action.

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#### Note D - 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 used in an oil immersed environment. The Company markets its products to automobile and heavy duty original equipment manufacturers ("OEM"), as well as to farm machinery, mining, truck and bus manufacturers.

The Dry Friction segment produces engineered friction products, which are

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not used in an oil immersed environment, and are primarily used in original equipment automobile and truck manual 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 used for wet friction applications, primarily for automobile and light 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.

Information relating to operations by industry segment follows:

### OPERATING SEGMENTS

	March 30, 2003	March 31, 2002
	-----	-----
	(Unaudited)	
<b>NET SALES</b>		
Wet Friction	\$ 34,672	\$ 34,348
Aftermarket	11,489	12,484
Dry Friction	11,709	8,153
Intersegment elimination (1)	(2,135)	(2,276)
	-----	-----
Net sales to external customers	\$ 55,735	\$ 52,709
	=====	=====
<b>OPERATING PROFIT (LOSS) (2)</b>		
Wet Friction	\$ (1,194)	\$ 1,513
Aftermarket	2,230	2,558
Dry Friction	1,365	755
Corporate	(2,017)	(1,993)
	-----	-----
Consolidated	\$ 384	\$ 2,833
	=====	=====

- (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, consisting of income before income taxes and minority interest.

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### Note E - Income Taxes

The effective tax rate for the thirteen-week period ended March 30, 2003 is 47.9% compared to an effective rate of 38.5% 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 and contributions made to the Raymark pension plan. Payments to the Raymark pension plans create a permanent difference due to this tax benefit inuring to the Raytech Personal Injury Trust in accordance with the Tax Benefits Assignment and Assumption Agreement. In addition, the Company did not recognize any tax benefits associated with the operating losses incurred by the Company's U.K. operations due to doubts about their future recoverability.

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The rate differs from the 2002 rate by 9.4 percentage points caused primarily by contributions made to the Raymark pension plan.

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 March 30, 2003, the Company has tax loss carryforwards of \$74.8 million and tax credit carryforwards of \$1.2 million. The net operating loss carryforwards are allocated between Raytech Corporation and the PI Trust in the amounts of \$2.8 million and \$72.0 million, respectively. 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 allocated to the PI Trust, and contributions made to the Raymark pension plans. If Raytech Corporation generates additional 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 current and future operating losses, if any, between the PI Trust and Raytech Corporation has not been determined at this time. Additional tax recoveries expected to be received in future periods are shown as deferred tax assets and a deferred payable to the PI Trust which amounted to \$42.4 million at March 30, 2003.

At March 30, 2003, the Company has recorded a tax receivable in the amount of \$4.8 million, net of Federal income tax, due from state governments for returns filed in 2002. The Company received \$2.5 million, net of Federal tax, in April 2003 as a partial recovery of these state taxes. In accordance with the Agreement, this amount inures to the benefit of the PI 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 \$1.3 million at March 30, 2003, if all of APC's earnings were to be distributed through dividends.

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### Note F - Goodwill and Other Intangible Assets

	March 30, 2003		December 29, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	-----	-----	-----	-----
	(Unaudited)			
Finite life intangible assets:				
Unpatented technology	\$ 16,262	\$3,881	\$ 16,262	\$ 3,396
Distribution base	5,716	571	5,716	500
	-----	-----	-----	-----
Sub-total	\$ 21,978	\$4,452	\$ 21,978	\$ 3,896

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	-----	-----	-----	-----
Indefinite life intangible assets:				
Trademarks	17,713		17,713	
	-----		-----	
Goodwill	34,767		34,767	
	-----		-----	
Intangible assets, net	\$ 70,006		\$ 70,562	
	=====		=====	

The weighted-average amortization periods for the unpatented technology and the distribution base are 8.6 and 20.0 years, respectively. Amortization expense for the thirteen weeks ended March 30, 2003 amounted to \$556.

Estimated annual amortization expense is as follows:

For the year ending:

2003	\$ 2,226
2004	2,226
2005	2,226
2006	2,226
2007	1,926

Trademarks and goodwill 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 30, 2003.

Note G - Litigation

The Company is subject to certain legal matters that have arisen in the ordinary course of business, and management does not expect these matters will have a material adverse effect on 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

Note G, continued

(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

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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 prepared a plan for implementation and is in compliance with the cleanup Order. The Company has estimated that the cost to comply with the Order will be approximately \$14.3 million of which \$10.5 million has been spent through March 30, 2003. The remaining balance of \$3.8 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. On May 6, 2003, EPA indicated that RPC is potentially liable for PCB contamination downstream of the ditch area that is the subject of the Order. EPA has not issued an order to RPC regarding this downstream area.

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 based on the difference between the costs of cleanup under the EPA Order and the IDEM Agreed Order. The outcome of this litigation is not known.

In February 2002, lawyers claiming to represent the Committee of Equity Holders filed a motion in U.S. Bankruptcy Court to compel Raytech to either issue up to approximately 700,000 additional shares to the pre-reorganization holders of shares in Raytech or their successors or to proportionately reduce the shareholdings of the general unsecured creditor shareholders under the Plan of Reorganization. The ultimate outcome of this matter is unknown; however, it is possible that its resolution could cause the Company to issue additional shares to the original shareholder group, or to retire shares held by the general unsecured creditor shareholder group. This might directly impact the earnings per share calculations of the Company. The Company has filed a motion for summary judgment asking the Court to dismiss the action.

On January 8, 2002, the Michigan Department of Environmental Quality ("MDEQ") sent the Company a letter 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. The Company's liability at this site is indeterminable at this time.

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### Note H - Restricted Cash

Restricted cash relates to the following:

	March 30, 2003	December 29, 2002
	-----	-----
	(Unaudited)	
Letters of credit	\$1,618	\$1,617

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Other	410	410
	-----	-----
	\$2,028	\$2,027
	=====	=====

The letters of credit collateralize certain obligations relating primarily to workers' compensation.

### 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.

#### Safe Harbor Statement

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Statements under the "Liquidity, Capital Resources and Future Liquidity" heading 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.

#### Significant Accounting Policies

Preparation of the Company's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Management believes the most complex and sensitive judgments, because of their significance to the consolidated financial statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis and Note 1 to the Consolidated Financial Statements in the Company's Form 10-K for fiscal 2002 describe the significant accounting estimates and policies used by management in the preparation of the consolidated financial statements. Actual results in these areas could differ from management's estimates. There have been no changes in the Company's critical accounting estimates during the first quarter 2003.

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#### Results of Operations and Liquidity and Capital Resources

Raytech Corporation recorded a net loss of \$0.1 million, or nil per basic share, for the thirteen-week period ended March 30, 2003 compared to net income of \$1.3 million, or \$.03 per basic share for the same period in the prior year. The reduction in earnings of \$1.4 million is due to an operating loss recorded

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in the Wet Friction segment and lower operating profit generated by the Aftermarket segment. The Dry Friction segment reported improved net sales and operating profit compared to the same period in the prior year. The details of which are presented below.

### Net Sales

Raytech recorded net sales of \$55.7 million for the thirteen-week period ended March 30, 2003 compared to \$52.7 million in the same period in the prior year. The analysis of the change in sales period-over-period is presented below by business segment.

The Wet Friction segment recorded sales of \$34.7 million for the thirteen-week period ended March 30, 2003 compared to \$34.3 million for the same period in the prior year, an increase of \$.4 million, or 1.0 percent. The sales for the segment reflect increased sales to the automotive OEM component of \$1.8 million due primarily to increased sales on certain new business, which began in the second quarter of 2002, offset by lower sales to the heavy duty component of the Wet Friction segment of \$1.6 million. Sales to various other customers increased \$.2 million period-over-period.

The Aftermarket segment recorded sales of \$11.5 million for the quarter ended March 30, 2003 compared to \$12.5 million for the quarter ended March 31, 2002, a reduction of \$1.0 million or 8.0 percent. The lower sales reflect a slower aftermarket in general as Raytech's customer base for aftermarket products, predominantly warehouse distributors, feel the impact of the slower economy.

The Dry Friction segment recorded sales of \$11.7 million for the thirteen-week period ended March 30, 2003 compared to \$8.2 million for the same period in the prior year, an increase of \$3.5 million, or 42.7 percent. The increase represents improved sales through Raytech's operations in China of \$.7 million, as the Company's business in China continues to expand, and improved sales through the German operation of \$2.9 million. The increase in Germany is due to a volume increase of \$1.2 million and a translation gain of \$1.7 million for the period. The translation gain reflects the increase period-over-period in the exchange rate of the Euro to the U.S. dollar.

### Gross Profit

Raytech recorded gross profit for the thirteen-week period ended March 30, 2003 of \$8.9 million compared to \$10.5 million for the thirteen-week period ended March 31, 2002, a reduction in gross profit of \$1.6 million. Gross profit as a percentage of sales for the first quarter of 2003 was 15.9 percent compared to 20.0 percent for the same period in the prior year, a decrease of 4.1 percentage points. The reduced gross profit is due to higher labor and material costs in the Wet Friction segment due to the production of certain new business in the automotive component of the segment. In addition, the reduced sales to the heavy duty component of the Wet Friction segment has negatively impacted overhead absorption. Management has taken action on both of these issues. The gross profit in the Dry Friction segment increased period-over-period due to the increased sales volume and related efficiencies.

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### Selling, General and Administrative

The selling, general and administrative ("SG&A") expenses for the thirteen-week period ended March 30, 2003 were \$8.3 million compared to \$7.6 million for the same period in the prior year, an increase of \$.7 million period-over-period. The increased SG&A reflects increased research and

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development costs, new hire and severance costs associated with certain management changes and increased personnel costs period-over-period.

### Interest Expense

Interest expense for the thirteen-week period ended March 30, 2003 of \$.2 million is substantially the same as the prior period amount of \$.3 million.

### Operating Profits

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

Raytech Corporation recorded operating profit of \$.4 million for the thirteen-week period ended March 30, 2003 compared to \$2.8 million for the same period in the prior year, a reduction of \$2.4 million. The operating profit was negatively affected by the reduced gross profit for the first quarter of 2003 compared to the first quarter of 2002. The details of the changes in operating profit are detailed below.

The Wet Friction segment recorded an operating loss for the period of \$1.2 million compared to an operating profit of \$1.5 million for the same period in the prior year. The reduced operating income is due substantially to the reduced gross profit in this segment of \$2.3 million, the details of which are outlined in the gross profit discussion above. The remaining \$.4 million of reduced operating profit reflects higher SG&A expenses for the period.

The Aftermarket segment recorded operating profit of \$2.2 million for the thirteen-week period ended March 30, 2003 compared to \$2.6 million for the same period in the prior year. The reduced operating profit reflects lower gross profit period-over-period of \$.4 million due substantially to a change in product mix for the segment.

The Dry Friction segment recorded operating profit of \$1.4 million for the thirteen-week period ended March 30, 2003 compared to \$.8 million for the same period in the prior year, an increase of \$.6 million. The increased operating profit is a result of the increased sales period-over-period of \$3.6 million.

### Income Taxes

See Note E - Income Taxes to the condensed unaudited consolidated financial statements included in Item I of this Part I.

### Liquidity, Capital Resources and Future Liquidity

The Company's cash and cash equivalents at March 30, 2003 totaled \$13.8 million compared to \$20.0 million at December 29, 2002, a decrease of \$6.2 million. Capital expenditures for the three-month period totaled \$ 1.8 million which is consistent with planned expenditures and a reduction of \$1.0

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million, compared with the capital spending for the same period in the prior year. Net cash used in operating activities was \$1.1 million for the three-month period ended March 30, 2003, compared to cash provided by operating activities of \$3.5 million in the prior year period. Cash outflows for working capital were \$5.7 million during the current year period, which was primarily comprised of the following: a \$4.0 million increase in trade accounts receivable and a \$3.2 million cash payment for environmental remediation,



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partially offset by a \$1.3 million increase in accounts payable. These were the most significant aspects of the change in other operating activities recorded on the statement of cash flows.

The debt and available lines of credit at March 30, 2003 and December 29, 2002 consist of the following:

	(in thousands)					
	March 30, 2003 (unaudited)			December 29, 2002		
	Current	Non-Current	Total	Current	Non-Current	Total
Domestic bank debt	\$ 8,244	\$ --	\$ 8,244	\$ 11,306	\$ --	\$ 11,306
Foreign bank debt	3,363	4,377	7,740	3,609	4,095	7,704
Total bank debt	11,607	4,377	15,984	14,915	4,095	19,010
Leases	167	187	354	176	198	374
Total borrowings	\$ 11,774	\$ 4,564	\$ 16,338	\$ 15,091	\$ 4,293	\$ 19,384

Available lines of credit:

	2003	2002
Domestic	\$ 8,219	\$ 5,006
Foreign	4,151	3,829
Total	\$12,370	\$ 8,835

Refer to the Management's Discussion and Analysis section and to Note M to the consolidated financial statements, both included within the Company's 2002 Form 10-K, for information regarding the Company's obligations and commitments by year. These obligations and commitments consist of long-term debt, capital leases and rental agreements.

The current domestic loan agreement has a covenant requiring the borrowing companies to maintain a rolling twelve-month earnings before interest, taxes, depreciation and amortization (EBITDA) of \$10.5 million for the quarter ended March 30, 2003. The Company was in compliance with this covenant at March 30, 2003.

The domestic borrowing facility matures in September 2003. The Company is reviewing borrowing alternatives and intends to enter into a new lending arrangement by September 2003.

The Company is complying with a Federal Order issued by the U.S. Environmental Protection Agency ("EPA") at its manufacturing facility in Crawfordsville, Indiana.

See Note G - Litigation. The Company spent \$3.2 million during the

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thirteen-week period ended March 30, 2003 and has a remaining accrual of \$3.8 million for completion of the project, which is included in other accrued liabilities. The remaining accrual is expected to be sufficient for compliance with the order.

The Company assumed the liability for the Raymark pension plans as part of the reorganization. Funding for the plans in 2003 is expected to be approximately \$7.6 million of which \$1.2 million was funded in the first quarter of 2003.

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Certain tax issues are discussed in Note E - Income Taxes, which provide details concerning the status of the current Internal Revenue Service audit and the use of certain future tax benefits.

Management believes that existing cash balances, the Company's ability to replace the current lending facility and cash flow from operations during 2003 will be sufficient to meet all of the Company's obligations arising in the normal course of business, including anticipated capital investments.

### 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 50.2 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 2003 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.

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

See Item 2.

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### Item 4. Controls and Procedures

- (a) Based on evaluation of the effectiveness of the design and operation of the Company disclosure controls and procedures, which evaluation was made under the supervision and with the participation of management, including the Company's principal executive officer and

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principal financial officer within the 90-day period prior to the filing of this Quarterly Report on Form 10-Q, the principal executive officer and principal financial officer have each concluded that such disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in reports that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

- (b) No significant changes were made to the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

See Note G - Litigation.

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

(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

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

Date: May 14, 2003

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### CERTIFICATION

I, John B. Devlin, Chief Financial Officer of Raytech Corporation (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of Raytech Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to

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make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant'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 registrant's ability to record, process, summarize and report financial data and have identified for the registrant'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 registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly 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 most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ JOHN B. DEVLIN

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

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### CERTIFICATION

I, Albert A. Canosa, President and Chief Executive Officer, of Raytech Corporation (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q of Raytech Corporation;
2. Based on my knowledge, this quarterly 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 with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant'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 registrant's ability to record, process, summarize and report financial data and have identified for the registrant'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 registrant's internal controls; and
6. The registrant's other certifying officer and I have indicated in this quarterly 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 most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

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/s/ ALBERT A. CANOSA  
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Albert A. Canosa  
President and  
Chief Executive Officer

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CERTIFICATION

I, John B. Devlin, Chief Financial Officer of Raytech Corporation (the "Company"), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, do hereby certify as follows:

1. The quarterly report on Form 10-Q of the Company for the period ended March 30, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such Form 10-Q fairly presents, in accordance with United States generally accepted accounting principles, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this Certification this 14th day of May, 2003.

/s/ JOHN B. DEVLIN  
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John B. Devlin  
Vice President, Treasurer  
and Chief Financial Officer

CERTIFICATION

I, Albert A. Canosa, Chief Executive Officer of Raytech Corporation (the "Company"), pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, do hereby certify as follows:

1. The quarterly report on Form 10-Q of the Company for the period ended March 30, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such Form 10-Q fairly presents, in accordance with United States generally accepted accounting principles, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, I have executed this Certification this 14th day of May, 2003.

/s/ ALBERT A. CANOSA  
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Albert A. Canosa  
President and  
Chief Executive Officer