RAYTECH CORP
Form 10-K
March 27, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the Fiscal Year ended December 30, 2001 or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

Commission File Number 1-9298

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

DELAWARE	06-1182033
(State or Other Jurisdiction of Organization)	(I.R.S. Employer Incorporation or Identification No.)

Suite 295, Four Corporate Drive Shelton, Connecticut	06484
(Address of Principal Executive Office)	(Zip Code)

(203) 925-8023
(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock - $1.00 Par Value	New York Stock Exchange

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

Indicate by check mark whether the Registrant (1) has filed all reports 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 filed requirements for the past 90 days.

Yes X 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 X No

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

As of March 1, 2002, 41,528,520 shares of common stock were outstanding and the aggregate market value of these shares (based upon the closing price of these shares on the New York Stock Exchange) on such date held by non-affiliates was approximately $137.0 million.

Documents incorporated by reference: None

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PART I.

PART II.

Item 1. Business

(a) General Development of Business.

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 lawsuits 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) 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.

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 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. All financial information prior to that date is presented as pertaining to the Predecessor Company while all financial 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.

(b) Financial Information About Industry Segments

The sales and operating income of Raytech by segment and its identifiable assets for the period from April 3, 2001 to December 30, 2001 (Successor Company), period from January 1, 2001 to April 2, 2001 (Predecessor Company), the year ended December 31, 2000 and the year ended January 2, 2000 are set forth herein starting on page 69.

(c) Narrative Description of Business

Introduction

Raytech Corporation and its subsidiaries manufacture and distribute engineered products for heat resistant, inertia control, energy absorption and transmission applications. The Company's operations are categorized into three business segments: wet friction, dry friction and aftermarket.

The Wet Friction operations produce 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 operations produce 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 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.

The percentage of net sales for each segment over the past three years is as follows:

	Successor Company for the Period April 3, 2001 to December 30, 2001	Predecessor Company for the Period January 1, 2001 to April 2, 2001	2000	1999
Wet Friction operations	61%	62%	64%	62%
Dry Friction operations	15%	14%	12%	13%
Aftermarket operations	24%	24%	24%	25%

Additional segment information is contained in the Management Discussion and Analysis section and in Note N - Notes to Consolidated Financial Statements.

Sales Methods

The Wet Friction operations, predominantly a domestic operation, serve the on-highway and off-highway vehicular markets by sale of its products to OEM of heavy trucks, buses, automobiles, construction and mining equipment and agricultural machinery, and through distributors supplying components and replacement parts for these vehicles. Sales to certain vehicular markets in the wet friction operation are made through a wholly-owned distributor.

The Aftermarket, predominantly a domestic operation, sells its products primarily to equipment distributors and in certain instances directly to retail outlets.

The Dry Friction operation sells dry friction facings to clutch assemblers who in turn supply the OEM and aftermarket predominantly in Europe.

Sales are made in all segments by company sales representatives. Sales are made under standard sales contracts for all or a portion of a customer's products over a period of time or on an open order basis.

Raytech's products are sold around the world, through export from the U.S. plants, through its wholly-owned subsidiaries in Germany, the United Kingdom and China, and through distributors.

Raw Material Availability

The principal raw materials used in the manufacture of energy absorption and transmission products include cold-rolled steel, metal powders, synthetic resins, plastics and synthetic and natural fibers. All of these materials are readily available from a number of competitive suppliers.

Patents and Trademarks

Raytech owns a number of patents, both foreign and domestic. Such patents expire between 2002 and 2018. In the opinion of management, the business is not dependent upon the protection of any of its patents or licenses and would not be materially affected by the expiration of any of such patents and licenses.

Raytech operates under a number of registered and common law trademarks, including the trademark "RAYBESTOS." Certain trademarks have been licensed on a limited basis. Some trademarks are registered internationally.

Competition, Significant Customers and Backlog

Raytech faces vigorous competition with respect to price, service and product performance in all of its markets from both foreign and domestic competitors.

In the wet friction original equipment automotive automatic transmission parts sector there are approximately four competitors, including one foreign company utilizing price, service and product performance to attempt to gain market share. Though not the largest company competing in this market, Raytech is highly competitive due to cost efficient plants, dedicated and skilled employees and products that are high in quality and reliability. The original equipment heavy-duty, off-highway vehicle sector is highly competitive with approximately three companies vying for the business, including two foreign companies, and approximately three competitors for the oil-immersed friction plate sector. Raytech is the leading competitor in these markets and sets the standards for the industry, resulting from its integrated, cost efficient operations and its high quality products and service. Domestic sales as a percentage of total Raytech sales to three customers are as follows:

Successor Company	Predecessor Company
As of and for the Period April 3, 2001 to	As of and for the Period January 1, 2001

	December 30, 2001	to April 2, 2001	2000	1999
Caterpillar	14.3%	13.2%	13.0%	11.9%
DaimlerChrysler	14.0%	13.8%	15.4%	14.8%
Ford	8.0%	3.8%	6.9%	6.3%

Sales backlog for the Wet Friction segment at the end of 2001, 2000, and 1999 was approximately $70 million, $72 million, and $92 million, respectively. It is anticipated that current backlog will be filled in 2002.

In the Dry Friction segment the European markets in which the Company participates are competitive with approximately two competitors in the passenger car clutch sector. Raytech is not the leader but has enhanced its competitive position in these markets, having significantly increased its market share through acquisition and restructuring. Raytech entered the Asian market with manufacturing that began in China in 1998. The markets are competitive with several Chinese and other Asian-based manufacturers competing for the business. Sales backlog at the end of 2001, 2000, and 1999 was approximately $2.7 million, $.7 million, and $.7 million, respectively. It is anticipated that current backlog will be filled in 2002.

In the Aftermarket segment, the domestic automotive, automatic transmission sector has approximately five competitors. Here, Raytech believes that some of its competitors have greater financial resources, but its competitive position is increasing due to the customer acceptance of both its high quality and low cost product lines. The transmission filter business is competitive with approximately five competitors. Sales backlog at the end of 2001, 2000, and 1999 was approximately $2 million, $6 million, and $9 million, respectively. It is anticipated that current backlog will be filled in 2002.

Competition in all markets served by Raytech is based on product quality, service and price. On such basis Raytech believes that it is highly competitive in all markets in which it is engaged.

Employees

At December 30, 2001, Raytech employed approximately 1,531 employees, compared with 1,642 employees at the end of 2000. Raytech has agreements with labor unions relating to wages, hours, fringe benefits and other conditions of employment which cover most of its production employees. The term of the labor contract at Raybestos Products Company in Crawfordsville, Indiana, is due to expire in May 2003. The term of the labor contract at Automotive Composites Company in Sterling Heights, Michigan, is due to expire in October 2004.

Capital Expenditures

Capital expenditures were $6.9 million for the period April 3, 2001 to December 30, 2001 (Successor Company), $3.5 million for the period January 1, 2001 to April 2, 2001 (Predecessor Company), $13.4 million for 2000 (Predecessor Company), and $23.2 million for 1999 (Predecessor Company). Capital expenditures for 2002 are projected at $17.4 million.

Research and Development

Research and development costs were approximately $5.3 million for the period April 3, 2001 to December 30, 2001 (Successor Company) and $1.7

million for the period January 1, 2001 to April 2, 2001 (Predecessor Company), $6.8 million in 2000 (Predecessor Company) and $7.1 million in 1999 (Predecessor Company). Separate research and development facilities are maintained at appropriate manufacturing plants for the purpose of developing new products, improving existing production techniques, supplying technical service to the business units and customers, and discovering new applications for existing products. Research and development costs for 2002 are projected at $9.1 million.

Environmental Matters

Various federal, state and local laws and regulations related to the discharge of potentially hazardous materials into the environment, and the occupational exposure of employees to airborne particles, gases and noise have affected and will continue to affect the Registrant's operations, both directly and indirectly, in the future. The Company's operations have been designed to comply with applicable environmental standards established in such laws and regulations. Pollution and hazardous waste controls are continually being upgraded at the existing manufacturing facilities to help to ensure environmental compliance. Expenditures for upgrading of pollution and hazardous waste controls for environmental compliance, including capital expenditures, are projected to be $.8 million for 2002. In addition, 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 $7.4 million at December 30, 2001, which should provide for full remediation and fines in compliance with the Order. See Note W to the Consolidated Financial Statements for more details. Because environmental regulations are constantly being revised and are subject to differing interpretations by regulatory agencies, Raytech is unable to predict the long-range cost of compliance with environmental laws and regulations. Nevertheless, management believes that compliance should not materially affect earnings, financial position or its competitive position.

(d) Financial Information about Foreign Operations

Financial information about the foreign operations of Raytech for the period April 3, 2001 to December 30, 2001 (Successor Company), the period January 1, 2001 to April 2, 2001 (Predecessor Company), the year ended December 31, 2000 (Predecessor Company) and the year ended January 2, 2000 (Predecessor Company) is set forth in Note N to the Consolidated Financial Statements, included herein.

Item 2. Properties

Raytech, through its three operating segments, has plants as follows:

The Wet Friction operations has a Crawfordsville, Indiana, facility that is owned and consists of approximately 461,000 square feet of office, production, research and warehousing space that is suitable and adequate to provide the productive capacity to meet reasonably anticipated demand of products. The Sterling Heights, Michigan, facility is owned and consists of approximately 111,000 square feet of office, production, research and warehousing space that is suitable and adequate to provide the productive capacity to meet reasonably anticipated demand of products. The Liverpool, England, facility is leased and consists of 27,000 square feet of office, production, research and warehousing space. Wet friction also leases sales office space in Leverkusen, Germany and Peoria, Illinois, and has an administrative office in Indianapolis, Indiana.

The Dry Friction operations has a Morbach, Germany, plant that is owned and consists of 108,000 square feet of office, production, research and warehousing space that is suitable and adequate to provide the production capacity to meet reasonably anticipated demand of products. The Suzhou, China, facility is owned and consists of 25,000 square feet of office, production, research and warehousing space that is suitable and adequate to provide the production capacity to meet reasonably anticipated demand of products.

The Aftermarket operations has two facilities in Sullivan, Indiana, that are owned and consist of 130,000 and 37,500 square feet of office and warehousing space that is suitable and adequate to provide the capacity to meet anticipated demand of products. The capacity is underutilized, leaving space for future demand. A separate Crawfordsville, Indiana, facility is owned and consists of approximately 41,000 square feet, which is currently being evaluated for alternative uses. Aftermarket also leases sales office space in Floral Park, New York.

Raytech also leases office space in Shelton, Connecticut, for its headquarters staff.

Raytech believes that its properties are substantially suitable and adequate for its purposes. All of the production facilities are continually being upgraded to comply with applicable environmental standards and to improve efficiency.

Item 3. 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 which required an additional accrual of $5.9

million during the period from April 3, 2001 to December 30, 2001 in order to fully reserve the estimated cost. 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 April 1998, Advanced Friction Materials ("AFM") redeemed 53% of its stock from the former owner for a formulated amount of $6.044 million, $3.022 million paid at closing and the balance of $3.022 million payable by note in three equal annual installments resulting in the Company attaining 100% ownership of AFM. In April 1999, AFM withheld payment of the note as a result of the discovery of an embezzlement by the former financial manager of AFM affecting the formulated payment. In June 1999, the former owner filed an action against the Company in a County Court in Michigan captioned Oscar E. Stefanutti, et al. vs. Raytech Automotive Components Company to enforce payment of the note. A trial date was scheduled for August 2001. Just prior to the start of the trial, the Court ordered a mediation resulting in a settlement of the case in October 2001 providing for payment by the Company of $3.1 million and full releases of the parties. The Company recorded approximately $1.5 million in income from extraordinary items (early extinguishment of debt) relating to interest accrued on the note payable that was not required to be paid in connection with the settlement.

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 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 percentge 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. A hearing on the motion has been scheduled by the Bankruptcy Court in April 2002.

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

None

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Registrant's (Raytech) common stock is traded on the New York Stock Exchange under the trading symbol RAY. As of March 1, 2002, there were 1,563 holders of record of the Registrant's common stock.

Information regarding the quarterly high and low sales prices for 2001 and 2000 and information with respect to dividends is set forth in Note O of the Consolidated Financial Statements, Part II, Item 8 hereof.

Item 6. Selected Financial Data

Consolidated Five-Year Financial Summary

Selected historical consolidated financial data is presented for the five fiscal years ended December 30, 2001.

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. All financial information prior to that date is presented as pertaining to the Predecessor Company while all financial 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.

Item 6. Selected Financial Data (continued)

FIVE-YEAR REVIEW OF OPERATIONS
(in thousands, except per share data)

	Successor Company			Predecessor Company	
	As of and for the Period April 3, 2001 to December 30, 2001	As of and for the Period January 1, 2001 to April 2, 2001(5)	2000	1999	
Operating Results					
Net sales	$ 146,050	$ 55,205	$ 239,532	$ 251,966	$
Gross profit	21,460	11,394	59,489	60,238	
Operating (loss) profit	(3,291)	3,652	27,215	27,518	
Interest expense	873	444(3)	2,218(3)	2,279(3)	
(Loss) income before					

extraordinary items	(6,531)	72,334	(7,058,978)	16,364	
Extraordinary items	954(6)	6,922,923	-	-	
Net (loss) income	(5,577)	6,995,257	(7,058,978)(4)	16,364	
Share Data					
Basic (loss) earnings per share	$ (.13)	$ 1,778.88	$ (2,015.40)(4)	$ 4.76	$
Weighted average shares	41,527,307	3,932,385	3,502,522	3,439,017	
Diluted (loss) earnings per share	$ (.13)	$ 1,772.62	$ (2,015.40)(4)	$ 4.65	$
Adjusted weighted average shares	41,527,307	3,946,282	3,502,522	3,518,884	
Balance sheet					
Total assets	$ 320,788	$ 323,636	$ 320,316	$ 188,686	$
Working capital	28,012	26,753	21,402	11,201	
Long-term obligations	85,410	69,330	31,238	35,055	
Liabilities subject to compromise(4)	-	-	7,211,433	-	
Commitments and contingencies (1)	-	-	-	-	
Total shareholders' equity (deficit)	144,083	158,352	(6,979,138)	80,788	
Property, plant and equipment					
Capital expenditures	$ 6,939	$ 3,486	$ 13,399	$ 23,203	$
Depreciation	10,585	3,180	11,545	10,569	
Dividends declared per share	$ -	$ -	$ -	$ -	$