

RAYTECH CORP
Form 10-Q/A
December 13, 2005

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

FORM 10-Q / A

(Mark One)

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

For the Quarter Ended July 3, 2005,
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)

203-925-8021

(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 August 8, 2005, 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 \$9.2 million.

Explanatory Note:

The Company has amended its July 3, 2005 Form 10-Q filed August 17, 2005 to restate its condensed consolidated statements of operations for the thirteen and twenty-six week periods ended July 3, 2005, its consolidated statements of cash flows for the twenty-six week period ended July 3, 2005, and its condensed consolidated balance sheets at July 3, 2005. Included in this Form 10-Q/A are certain adjustments to correct errors related to the accounting for taxes due to an Internal Revenue Service settlement. All applicable amounts relating to this restatement have been reflected in the condensed consolidated financial statements and disclosed in the notes to the condensed consolidated financial statements in this Form 10-Q/A.

RAYTECH CORPORATION**INDEX**

	<u>Page Number</u>
PART I. FINANCIAL INFORMATION:	
Item 1.	Financial Statements
	Condensed Consolidated Balance Sheets at July 3, 2005 and January 2, 2005 4
	Condensed Consolidated Statements of Operations for the thirteen and twenty-six weeks ended July 3, 2005 and June 27, 2004 5
	Condensed Consolidated Statements of Cash Flows for the twenty-six weeks ended July 3, 2005 and June 27, 2004 6
	Condensed Consolidated Statements of Changes in Shareholders' Equity for the twenty-six weeks ended July 3, 2005 and June 27, 2004 7
	Notes to Condensed Consolidated Financial Statements 8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 36
Item 3.	Quantitative and Qualitative Disclosures About Market Risk 46
Item 4.	Controls and Procedures 47
PART II. OTHER INFORMATION	
Item 1.	Legal Proceedings 49
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds 49
Item 6.	Exhibits 49
	Signature 50

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

	July 3, 2005 As Restated	January 2, 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 9,548	13,620
Restricted cash	5,080	5,548
Trade accounts receivable, less allowance of \$1,129 and \$1,462	31,874	27,506
Inventories, net	39,919	39,582
Income taxes receivable	1,339	1,333
Deferred income taxes	3,408	3,854
Other current assets	2,340	3,009
Total current assets	93,508	94,452
Property, plant and equipment		
Property, plant and equipment	114,700	126,118
Less accumulated depreciation	(39,782)	(46,113)
Net property, plant and equipment	74,918	80,005
Goodwill, net		
Goodwill, net	3,687	5,912
Other intangible assets, net		
Other intangible assets, net	21,899	22,731
Other assets		
Other assets	2,848	2,586
Total assets	\$ 196,860	\$ 205,686
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 18,147	\$ 15,280
Current portion of pension obligation	2,242	2,248
Accounts payable	14,375	15,068
Accrued liabilities	24,302	23,810
Payable to the PI Trust	4,998	4,393
Total current liabilities	64,064	60,799
Long-term debt		
Long-term debt	16,785	11,416
Pension obligation		
Pension obligation	12,612	14,175
Postretirement benefits other than pension		
Postretirement benefits other than pension	17,991	16,834
Deferred payable to the PI Trust		
Deferred payable to the PI Trust	3,630	4,627
Deferred income taxes		
Deferred income taxes	7,528	7,591
Other long-term liabilities		
Other long-term liabilities	6,365	7,044
Total liabilities	128,975	122,486
Commitments and Contingencies		
Minority interest		
Minority interest	523	10,020
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, 41,737,306 issued and outstanding	41,737	41,737
Additional paid in capital	117,574	117,574
Accumulated deficit	(80,931)	(77,595)
Accumulated other comprehensive loss	(11,018)	(8,536)
Total shareholders' equity	67,362	73,180
Total liabilities and shareholders' equity	\$ 196,860	\$ 205,686

The accompanying notes are an integral part of these statements.

RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share data)
(unaudited)

	For the 13 Weeks Ended		For the 26 Weeks Ended	
	July 3, 2005 As Restated	June 27, 2004	July 3, 2005 As Restated	June 27, 2004
Net sales	\$ 60,606	\$ 58,405	\$ 123,958	\$ 115,003
Cost of sales	53,655	45,876	105,011	91,415
Gross profit	6,951	12,529	18,947	23,588
Selling, general and administrative expenses	8,777	10,424	18,395	19,026
Restructuring expenses	1,687	-	2,074	-
Operating (loss) profit	(3,513)	2,105	(1,522)	4,562
Interest expense	(600)	(348)	(981)	(663)
PI Trust payable (increase) decrease	(306)	-	689	-
Other expense, net	(460)	(375)	(73)	(82)
(Loss) income before provision for income taxes and minority interest	(4,879)	1,382	(1,887)	3,817
Provision for income taxes	77	1,038	1,269	1,866
(Loss) income before minority interest	(4,956)	344	(3,156)	1,951
Minority interest	-	287	180	543
Net (loss) income	\$ (4,956)	\$ 57	\$ (3,336)	\$ 1,408
Basic and diluted (loss) earnings per share	\$ (0.12)	\$ -	\$ (0.08)	\$ 0.03

The accompanying notes are an integral part of these statements.

RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	For the 26 Weeks Ended	
	July 3, 2005	June 27, 2004
	As Restated	
Cash flows from operating activities:		
Net (loss) income	\$ (3,336)	\$ 1,408
Adjustments to reconcile net (loss) income to net cash		
used by operating activities:		
Depreciation and amortization	8,298	8,344
Other non-cash items	899	(569)
Changes in other operating assets and liabilities		
Trade accounts receivable	(4,752)	(7,080)
Inventories	(1,631)	(1,510)
Accounts payable	(541)	(1,011)
Other operating assets and liabilities, net	853	(17)
Net cash used by operating activities	(210)	(435)
Cash flow from investing activities:		
Capital expenditures	(6,127)	(1,754)
Restricted cash	468	(353)
Other	836	-
Net cash used by investing activities	(4,823)	(2,107)
Cash flow from financing activities:		
Net borrowings on short-term notes	3,443	3,676
Principal payments on long-term debt	(1,954)	(1,506)
Net cash provided by financing activities	1,489	2,170
Effect of exchange rate changes on cash	(528)	(69)
Net change in cash and cash equivalents	(4,072)	(441)
Cash and cash equivalents at beginning of period	13,620	16,413
Cash and cash equivalents at end of period	\$ 9,548	\$ 15,972
Supplemental schedule of non-cash investing and financing activities:		
Acquisition of APC minority shares owned by Raymark through issuance of a long-term note payable	\$ 7,200	\$ -

The accompanying notes are an integral part of these statements.

RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands)
(unaudited)

	Common Stock	Additional Paid in Capital	Accumulated Deficit As Restated	Accumulated Other Comprehensive Loss	Total As Restated
Balance, December 28, 2003	\$ 41,737	\$ 117,574	\$ (74,845)	\$ (8,556)	\$ 75,910
Comprehensive income (loss):					
Net income	-	-	1,408	-	1,408
Other comprehensive loss	-	-	-	(279)	(279)
Total comprehensive income (loss)	-	-	1,408	(279)	1,129
Balance, June 27, 2004	\$ 41,737	\$ 117,574	\$ (73,437)	\$ (8,835)	\$ 77,039
Balance, January 2, 2005	\$ 41,737	\$ 117,574	\$ (77,595)	\$ (8,536)	\$ 73,180
Comprehensive income (loss):					
Net (loss) income	-	-	(3,336)	-	(3,336)
Other comprehensive loss	-	-	-	(2,482)	(2,482)
Total comprehensive income (loss)	-	-	(3,336)	(2,482)	(5,818)
Balance, July 3, 2005	\$ 41,737	\$ 117,574	\$ (80,931)	\$ (11,018)	\$ 67,362

The accompanying notes are an integral part of these statements.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 0 - Restatement

During the review of the third quarter of 2005, the Company determined that certain accounting for taxes in the previously filed second quarter Form 10Q for the period ended July 3, 2005 must be modified.

An Internal Revenue Service settlement that was finalized in the second quarter was recorded as a \$1.6 million benefit in the tax provision. The tax reserves, which were no longer necessary after the Internal Revenue Service settlement, were established as part of fresh start accounting in 2001, when the Company emerged from Chapter 11 bankruptcy. The reversal of the \$1.6 million reserve for Federal income tax contingencies should have resulted in a reduction of goodwill rather than being recorded as a benefit in the income tax provision. The financial statements in this Form 10-Q/A have been amended to reflect the proper accounting. The Balance Sheet as of July 3, 2005, the Statements of Operations for the thirteen and twenty-six weeks then ended and the Statements of Cash Flows for the twenty-six weeks then ended as previously reported and as restated are as follows:

-8-

Note 0 - Continued

RAYTECH CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET DATA (UNAUDITED)

Amounts in thousands, except share data

July 3, 2005

	As Restated	As Previously Reported
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,548	9,548
Restricted cash	5,080	5,080
Trade accounts receivable, less allowance of \$1,219	31,874	31,874
Inventories, net	39,919	39,919
Income taxes receivable	1,339	1,339
Deferred income taxes	3,408	3,408
Other current assets	2,340	2,340
Total current assets	93,508	93,508
Property, plant and equipment	114,700	114,700
Less accumulated depreciation	(39,782)	(39,782)
Net property, plant and equipment	74,918	74,918
Goodwill, net	3,687	5,287
Other intangible assets, net	21,899	21,899
Other assets	2,848	2,848
Total assets	\$ 196,860	198,460
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current portion of long-term debt	\$ 18,147	18,147
Current portion of pension obligation	2,242	2,242
Accounts payable	14,375	14,375
Accrued liabilities	24,302	24,302
Payable to the PI Trust	4,998	4,998
Total current liabilities	64,064	64,064
Long-term debt	16,785	16,785
Pension obligation	12,612	12,612
Postretirement benefits other than pension	17,991	17,991
Deferred payable to the PI Trust	3,630	3,630
Deferred income taxes	7,528	7,528
Other long-term liabilities	6,365	6,365
Total liabilities	128,975	128,975
Commitments and contingent liabilities		
Minority interest	523	523
Shareholders' Equity		
Capital Stock:		
Cumulative preferred stock, no par value.		

Authorized 5,000,000 shares; none issued and outstanding

Common stock, \$1.00 par value. Authorized 50,000,000 shares;

41,737,306 issued and outstanding	41,737	41,737
Additional paid in capital	117,574	117,574
Accumulated deficit	(80,931)	(79,331)
Accumulated other comprehensive loss	(11,018)	(11,018)
Total shareholders' equity	67,362	68,962
Total liabilities and shareholders' equity	\$ 196,860	198,460

-9-

Note 0 - Continued

RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATION DATA (UNAUDITED)

Amounts in thousands, except share data

	For the 13 Weeks Ended July 3, 2005		For the 26 Weeks Ended July 3, 2005	
	As Restated	As Previously Reported	As Restated	As Previously Reported
Net sales	\$ 60,606	60,606	123,958	123,958
Cost of sales	53,655	53,655	105,011	105,011
Gross profit	6,951	6,951	18,947	18,947
Selling, general and administrative expenses	8,777	8,777	18,395	18,395
Restructuring expenses	1,687	1,687	2,074	2,074
Operating loss	(3,513)	(3,513)	(1,522)	(1,522)
Interest expense	600	600	981	981
PI Trust payable (decrease) increase	306	306	(689)	(689)
Other expense, net	460	460	73	73
Loss before provision for income taxes and minority interest	(4,879)	(4,879)	(1,887)	(1,887)
(Benefit) provision for income taxes	77	(1,523)	1,269	(331)
Loss before minority interest	(4,956)	(3,356)	(3,156)	(1,556)
Minority interest			180	180
Net loss	\$ (4,956)	(3,356)	(3,336)	(1,736)
Basic and diluted loss per share	\$ (0.12)	(0.08)	(0.08)	(0.04)

Note 0 - Continued

RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW DATA (UNAUDITED)

Amounts in thousands

	For the 26 Weeks Ended July 3, 2005	
	As Restated	As Previously Reported
Cash flows from operating activities:		
Net loss	\$ (3,336)	(1,736)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	8,298	8,298
Other non-cash items	899	(701)
Changes in other operating assets and liabilities:		
Trade accounts receivable	(4,752)	(4,752)
Inventories	(1,631)	(1,631)
Accounts payable	(541)	(541)
Other operating assets and liabilities, net	853	853
Net cash used by operating activities	(210)	(210)
Cash flow from investing activities:		
Capital expenditures	(6,127)	(6,127)
Restricted cash	468	468
Other	836	836
Net cash used by investing activities	(4,823)	(4,823)
Cash flow from financing activities:		
Net borrowings on short-term notes	3,443	3,443
Principal payments on long-term debt	(1,954)	(1,954)
Net cash provided by financing activities	1,489	1,489
Effect of exchange rate changes on cash	(528)	(528)
Net change in cash and cash equivalents	(4,072)	(4,072)
Cash and cash equivalents at beginning of period	13,620	13,620
Cash and cash equivalents at end of period	\$ 9,548	9,548
Supplemental schedule of non-cash investing and financing activities:		
Acquisition of APC minority shares owned by Raymark through issuance of a long-term note payable	\$ 7,200	7,200

Note 1 - Summary of Significant Accounting Policies

On July 7, 2005, the Company and The Raytech Corporation Asbestos Personal Injury Trust (the "PI Trust"), its largest shareholder, announced that the PI Trust intends to undertake a going private transaction of the Company. As part of that transaction, the PI Trust entered into a Supplemental Settlement Agreement with shareholders who were the environmental creditors of the Company in its 2001 Chapter 11 reorganization. The settlement is conditioned upon receiving the approval of the United States Bankruptcy Court for the District of Connecticut after a hearing, which is scheduled for August 16, 2005. Upon completion of the settlement, the PI Trust will own approximately 90.6% of the outstanding shares of the Company. The PI Trust then intends to undertake a short-form merger of the Company into a newly created subsidiary that is wholly owned by the Trust, terminate the registration of the stock with the Securities and Exchange Commission, and seek to de-list the Company's common stock from trading on the New York Stock Exchange. On August 1, 2005, the Company was notified by the New York Stock Exchange ("NYSE") that it is not in compliance with the NYSE's increased continued listing standards due to the fact that its total market capitalization is less than \$75 million over a 30-day trading period and its stockholders' equity is less than \$75 million. Under the rules and procedures of the NYSE, the Company must respond to the NYSE within 45 days with a business plan that demonstrates compliance with the continued listing standards. The Company does not believe that it can take steps which will permit it to satisfy the financial continued listing criteria of the NYSE within the 18-month cure period provided. The Company is engaged in discussions with NYSE staff regarding the timing of the anticipated going private transaction and delisting of its stock.

Presentation of Condensed Unaudited Consolidated Financial Statements

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 Corporation (the "Company") as of July 3, 2005 and the consolidated results of operations and cash flows for all interim periods presented. All adjustments, with the exception of the entries to record the acquisition of minority shares of Allomatic Products Company ("APC") which are discussed in Note 13, 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 January 2, 2005. Interim results are not necessarily indicative of the results for the full year.

Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value-based method of accounting in accordance with Accounting Principles Board Opinion No. 25. As such, no compensation cost is recognized for stock options granted with an exercise price equal to the fair market value of the underlying stock as of the grant date. Had compensation costs of stock options been determined under a fair value alternative method as stated in Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure, an Amendment of FASB Statement No. 123," the Company would have been required to recognize compensation cost based on the fair value of the options granted. Required pro forma information applying a fair value method to all awards, is presented in the table below.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 1, Continued

	For the 13 weeks ended		
	July 3, 2005 As Restated	July 3, 2005 As Previously Reported	June 27, 2004
Net income:			
As reported	\$ (4,956)	(3,356)	57
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(170)	(170)	(315)
Pro forma	\$ (5,126)	(3,526)	(258)
Basic and diluted loss per share:			
As reported	\$ (0.12)	(0.08)	-
Pro forma	\$ (0.12)	(0.08)	(0.01)

	For the 39 weeks ended		
	July 3, 2005 As Restated	July 3, 2005 As Previously Reported	June 27, 2004
Net income:			
As reported	\$ (3,336)	(1,736)	1,408
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(386)	(386)	(723)
Pro forma	\$ (3,722)	(2,122)	685
Basic and diluted loss per share:			
As reported	\$ (0.08)	(0.04)	0.03
Pro forma	\$ (0.09)	(0.05)	0.02

During the first quarter of fiscal 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 and the following assumptions: expected volatility of 56.70%, dividend yield of 0.00%, risk free interest rate of 3.60% and an expected life of the options of six years. During the second quarter of fiscal 2003, the Company granted options for 1,172,000 shares of common stock with an exercise price of \$5.70 per share. The fair value of these options was estimated at \$2.05 per common share on the date of grant, using the Black-Scholes option pricing model and the following assumptions: expected volatility of 62.30%, dividend yield of 0.00%, risk free interest rate of 2.84% and an expected life of the options of six years. All options granted to date vest over a four year period.

There were no options granted during the 2004 fiscal year or during the first and second quarters of 2005.

For a summary of all other significant accounting policies, refer to Note 1 to the consolidated financial statements included with the 2004 Form 10-K.

Revenue Recognition

Revenue from the sale of the Company's products is recognized upon shipment to the customer when ownership and risk of loss has been transferred. Substantially all of the Company's revenues are derived from fixed price purchase orders. Costs and related expenses to manufacture the products are recorded as costs of sales when the related revenue is recognized. The Company establishes an allowance

-13-

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 1, continued

for doubtful accounts based on historical experience and believes that collections of revenues, net of the allowance for doubtful accounts, is reasonably assured.

The Company produces goods for its customers based on a purchase order system, and in certain instances using longer term contracts that stipulate a fixed selling price with no commitment as to quantity. In instances where the product's cost exceeds the selling price, an accrual is provided for the expected loss on goods in inventory and customer purchase orders received by the balance sheet date. The loss is based on the difference between contracted selling price and the fully absorbed cost of inventory. The fully absorbed inventory cost includes normal fixed and variable, direct and indirect, manufacturing costs including material, labor, employee benefit, depreciation, utility and other costs. The Company has not recorded an estimate of the loss over the term of these contracts other than purchases related to inventory on hand since the quantity and mix of parts is not known and future production costs will be impacted by, among other things, changes in economic conditions and management's actions, including expected cost savings initiatives. This policy is followed for all periods presented regarding any and all losses on contracts where costs exceed selling price. Losses are consistently recorded based on all inventory and from purchase orders only based on the difference between contracted selling price and fully absorbed inventory costs, outlined above, consistent with the Company's standard cost system in conformity with accounting principles generally accepted in the United States. The loss incurred on products sold under loss contracts was \$3.5 million and \$1.6 million in the second quarter of 2005 and the second quarter of 2004, respectively. The loss incurred on products sold under loss contracts for the twenty-six-week period ended July 3, 2005 was \$6.4 million and \$3.3 million for the same period in the prior year. The reserve for expected loss on goods in inventory and customer purchase orders was \$2.0 million and \$1.5 million at July 3, 2005 and January 2, 2005, respectively.

When the Company receives an incentive to enter into an agreement with a customer, the revenue attributed to the incentive is recognized over the term of the agreement or the life of the specific relationship with the customer.

Warranties

The Company provides certain warranties relating to the quality and performance of its products. The primary product of the Company, friction plates, is used in manual and automatic transmissions, transfer cases and wet wheel brake systems for heavy duty equipment. The Company maintains product liability insurance that covers personal injuries and property damage alleged to have been caused by defective products. The Company also has insurance to cover the costs of product recalls arising from its OEM production in the United States, Germany and China. Warranty claims have historically been insignificant due to the quality of the Company's products and the possibility that other parts in the systems or their interactions may contribute to any system failure. Based on the historical warranty claim experience the Company has not deemed it necessary to accrue a warranty obligation at the time of sale. However, if a claim is made and the Company determines that it is probable that the claim is valid and that it has an obligation, a liability is recorded. If the Company determines that it is not probable but is reasonably possible that a significant warranty obligation has been incurred, the nature of the claim and, if estimable, a range of cost is disclosed.

Legal Expenses

Legal expenses are accrued when incurred.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 1, continued

Fiscal Year

The Company's fiscal year is a 52-53-week period ending on the Sunday closest to December 31st.

Reclassification

Certain 2004 amounts have been reclassified to conform to the 2005 presentation.

Recently Issued Accounting Pronouncements

In July 2002, the Public Company Accounting Reform and Investor Protection Act of 2002 (the Sarbanes-Oxley Act) was enacted. Section 404 stipulates that public companies must take responsibility for maintaining an effective system of internal control. The act requires public companies to report on the effectiveness of their control over financial reporting and obtain an attest report from their independent registered public accountant about management's report. The act requires most public companies (accelerated filers) to report on the company's internal control over financial reporting for fiscal years ended on or after November 15, 2004. Other public companies (non-accelerated filers) must begin to comply with the new requirements related to internal control over financial reporting for their first fiscal year ending on or after July 15, 2006 under the latest extension granted by the Securities and Exchange Commission. Raytech is a non-accelerated filer and therefore does not have to comply with Section 404 of the Sarbanes-Oxley Act until 2006.

In November 2004 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4". This statement clarifies the accounting for abnormal amounts of idle facility expense, freight handling costs and wasted material (spoilage). This statement requires that these types of costs be recognized as current period charges. SFAS No. 151 is effective prospectively for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier application permitted for such costs incurred during fiscal years beginning after November 24, 2004. Management does not expect the adoption of SFAS No. 151 to have a significant impact on the Company's consolidated financial statements.

In December 2004 the FASB issued SFAS No. 123 (revised 2004), "Share Based Payment". This statement replaces SFAS 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion 25, "Accounting for Stock Issued to Employees". SFAS No. 123 (revised 2004) requires that the cost of share-based payment transactions (including those with employees and non-employees) be recognized as compensation costs in the financial statements. SFAS No. 123 (revised 2004) applies to all share-based payment transactions in which an entity acquires goods or services by issuing (or offering to issue) its shares, share options, or other equity instruments (except for those held by an ESOP) or by incurring liabilities in amounts based (even in part) on the price of the entity's shares or other equity instruments, or that require (or may require) settlement by the issuance of an entity's shares or other equity instruments. This statement applies to all new awards granted during the fiscal year beginning after June 15, 2005 and to previous awards that are modified or cancelled after such date. We have not yet fully evaluated the effect of SFAS No. 123 (revised 2004) on our financial statements and have not determined the method of adoption we will use to implement SFAS No. 123 (revised 2004).

In December 2004, the FASB issued FASB Staff Position (“FSP”) FAS 109-1, “Application of FASB Statement No. 109, “Accounting for Income Taxes,” to the Tax Deduction on Qualified Production Activities

-15-

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 1, continued

Provided by the American Jobs Creation Act of 2004 ("AJCA"). The AJCA introduces a special 9% tax deduction on qualified production activities. FSP FAS 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with Statement 109. Based upon the Company's preliminary evaluation of the effects of this guidance, we do not believe that it will have any impact on the Company's Consolidated Financial Statements.

In December 2004, the FASB issued FSP FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creations Act of 2004." The AJCA introduces a limited time 85% dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer (repatriation provision), provided certain criteria are met. FSP FAS 109-2 provides accounting and disclosure guidance for the repatriation provision. Based upon the Company's preliminary evaluation of the effects of the repatriation provision, we do not believe that it will have any impact on the Company's Consolidated Financial Statements.

During March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 107, guidance on SFAS No. 123 (revised 2004). SAB No. 107 was issued to assist preparers by simplifying some of the implementation challenges of SFAS No 123 (revised 2004) while enhancing the information that investors receive. The Company will consider the guidance provided by SAB No. 107 when it implements SFAS No. 123 (revised 2004) during 2006.

Note 2- Liquidity

Cash used in operating activities for the thirteen-week period ended July 3, 2005 of \$.2 million compared to \$.4 million for the same period in the prior year. The principal operating use of cash for the twenty-six-week period ended July 3, 2005 has been to support increases in accounts receivable and inventory, which is a seasonal fluctuation and is consistent with the prior year periods. The increase in inventories is principally the result of a build-up in inventory to facilitate the closure of our Sterling Heights, Michigan, manufacturing facility.

Capital expenditures through July 3, 2005 of \$6.1 million compared to \$1.8 million for the same period in the prior year. The capital expenditures are as planned. The Company completed the building expansion begun in 2004 at the facility in China with expenditures in 2004 of \$.8 million. The new facility will increase production capacity to meet the demand for products produced at that location. In addition, the Wet Friction OEM segment has increased capital spending \$1.9 over the 26-week period in 2004. The increased spending has been for equipment installations, as production is transferred out of the facilities being closed, support for cost reduction programs and additional R&D equipment.

Cash and cash available under existing lines of credit at July 3, 2005 totaled \$16.8 million compared to \$19.7 million at January 2, 2005, a decrease of \$2.9 million. The decrease is due primarily to capital expenditures during the period.

The total borrowings at July 3, 2005 of \$34.9 million compares to total borrowings of \$26.7 million at year-end 2004, an increase of \$8.2 million. The increase in total borrowings was principally the result of the issuance of a \$7.2 million note related to the purchase of the shares of APC stock owned by Raymark. See Note 13 for a further discussion of the APC stock acquisition. Available lines of credit at July 3, 2005 of \$6.8 million compared to \$6.1 million at year-end 2004, an increase of \$.7 million. Full details of the Company's debt are contained in Note 6 - Debt

to the Condensed Consolidated Financial Statements. During the first quarter of 2005, the Company amended its domestic debt agreements. The primary purpose of the

-16-

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 2, continued

amendments was the modification of the debt covenant calculations to provide the Company greater flexibility to manage its cash resources and certain one-time costs that will be incurred during 2005 related to the plant closures announced during 2004. Additionally, the amendment to the Domestic OEM loan and security agreement provides for a remedy of future non-compliance with the quarterly debt covenants, by an irrevocable cash contribution by the parent. During the twenty-six-week period ended July 3, 2005, the parent made an irrevocable cash contribution of \$2.3 million to RPC, a borrower, to remedy the debt covenant non-compliance. The parent may be required to make additional cash contributions in the future in the event of any further non-compliance of the borrowers.

Refer to Notes 8 - Debt and 15 - Commitments to the consolidated financial statements, included within the Company's 2004 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 Company's potential obligations regarding environmental remediation are explained in Note 7 - Litigation to the Condensed Consolidated Financial Statements.

Certain tax issues are discussed in Note 9 - Income Taxes to the Condensed Consolidated Financial Statements, which provides additional information concerning the status of the current Internal Revenue Service audit and the use of certain future tax benefits.

The most significant factor affecting the Company's future cash flows is its ability to earn and collect cash from customers. The automotive parts industry is extremely competitive. The Company's customers are often able to demand price reductions from the suppliers including all segments of Raytech. Some of the Company's sales are made under standard sales contracts that include price commitments for multiple years. Specifically in the Domestic OEM segment, the Company is selling certain products to certain customers at a loss under the terms of its current sales contracts. The Company is currently working with certain customers to re-negotiate the terms of these loss contracts. In addition, the Company is reviewing alternatives to improve its cost structure. Additionally, the Company, specifically in the Domestic OEM segment, has very large customers, some representing more than ten percent of consolidated sales. From time to time, the Company loses business from existing customers, including its largest customers, due to pricing, technological or other competitive pressures. The Company also from time to time gains new business and renewals of existing business from existing or new customers through its continuing cost reduction, sales and development efforts. The cumulative effect of these changes, or the loss of one of its largest customers, could have a material adverse effect on the consolidated financial results of the Company.

Items that will potentially require the use of cash during the remainder of fiscal 2005 other than normal operating expenses include the following.

- The Company has recorded an accrued liability of \$5.9 million for certain environmental matters more fully discussed in Note 7 - Litigation to the Condensed Consolidated Financial Statements. Management expects that \$.5 million will be spent during 2005 and the balance during 2006 or later.
- The Company assumed the liability for the Raymark pension plans as part of the Chapter 11 reorganization. The plans, which are discussed as part of Note 9 - Employee Benefits to the consolidated financial statements, included within the Company's 2004 Form 10-K, are underfunded and the Company, through an agreement with the Internal

Revenue Service, is providing both current contributions and catch-up contributions. The expected funding for the plans in 2005 will be approximately \$1.3 million, \$.9 million of which was funded during the first six months of 2005.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 2, continued

- The Company has conducted a facilities utilization review and has determined that improved performance can be obtained through the closure of certain facilities and moving certain production to other facilities operated by the Company. The Company estimates that the total cash outflows related to these closures will be approximately \$6.2 million, of which we expect to expend \$4.0 million during 2005 and the remaining balance will be spent during 2006 and 2007. The expenses related to these closures are more fully explained in Note 12 - Restructuring Programs to the Condensed Consolidated Financial Statements.
- During 2004, we reached agreements with certain major customers on revised sales contract provisions that will enable us to close our manufacturing plant in Sterling Heights, Michigan. The new sales contract provisions require the Company, in certain instances, to build up inventory levels to facilitate the transition to a new vendor or to another manufacturing location within the Company. As a result, we expect our inventory levels to increase through September 2005 by as much as \$2.6 million. During the fourth quarter of 2005, we expect this trend will reverse and inventory levels will begin to decrease. We currently expect that the amount of inventory related to the build up will be less than \$2.0 million at year end 2005.
- The Company incurred costs associated with the retirement of its President and Chief Executive Officer during the second quarter and the restructuring of its domestic management team during the third quarter of 2004. The total cost associated with these items is approximately \$1.4 million, of which \$.8 million was paid during 2004, \$.4 million was paid during the first quarter of 2005 and the balance to be paid prior to the end of 2005.
- Certain tax issues are discussed in Note 9 - Income Taxes to the Condensed Consolidated Financial Statements, which provides detail 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 lending facilities and cash flow from operations during 2005 will be sufficient to meet all of the Company's obligations arising in the normal course of business, including anticipated capital investments. However, the ability of the Company to utilize its lending facilities is dependent on the Company's ability to meet its financial forecasts for 2005, which is not assured, and to meet the financial covenants contained in its credit facilities. These forecasts include modest revenue growth in all three operating segments as well as certain cost-saving initiatives, partially offset by certain cost increases and inflation assumptions. If the Company does not comply with the financial covenants, an event of default would occur and could result in the acceleration of the Company's indebtedness under its domestic credit facilities. If that were to occur, the ability of the Company to continue would be dependent upon, among other things, its ability to amend the credit facilities, enact certain actions to generate cash and/or to seek additional alternative financing from other lenders. The Company is reviewing alternatives with its current lenders and others, which would supply additional liquidity for expansion and relocation costs, which are considerations in future strategic plans.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 3 - Restricted Cash

Restricted cash relates to the following:

	July 3 2005	January 2, 2005
Payable to the PI Trust	\$ 3,222	\$ 3,199
Letters of credit	1,448	1,939
Other	410	410
	\$ 5,080	\$ 5,548

The payable to the PI Trust consists of tax refunds and other funds received by the Company that will be paid to the PI Trust at a future date. Subsequent to July 3, 2005, the Company paid to the PI Trust \$2.7 million of the above payable.

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

Note 4 - Inventories

Inventories, net, consist of the following:

	July 3, 2005	January 2, 2005
Raw material	\$ 12,470	\$ 12,464
Work in process	12,859	11,020
Finished goods	14,590	16,098
	\$ 39,919	\$ 39,582

Inventory reserves were \$5,321 and \$4,729 at July 3, 2005 and January 2, 2005, respectively.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 5 - Goodwill and Other Intangible Assets

	July 3, 2005			January 2, 2005	
	Gross Carrying Amount As Restated	Gross Carrying Amount As Previously Reported	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite life intangible assets:					
Unpatented technology	\$ 14,382	14,382	7,788	14,360	6,972
Distribution base	5,737	5,737	1,218	5,716	1,073
Total	\$ 20,119	20,119	9,006	20,076	8,045
Indefinite life intangible assets:					
Trademarks	\$ 10,786	10,786		10,700	
Goodwill	\$ 3,687	5,287		5,912	
Intangible assets, net	\$ 25,586	27,186		28,643	

The weighted average amortization periods for the unpatented technology and the distribution base are between 6 and 20 years. Amortization expense for the 13 weeks ended July 3, 2005 and June 27, 2004 amounted to \$480 and \$482, respectively. Amortization expense for the 26 weeks ended July 3, 2005 and June 27, 2004 amounted to \$961 and \$962, respectively.

Estimated annual amortization expense is as follows:

For the year ending:

2005	\$ 1,922
2006	1,922
2007	1,622
2008	1,522
2009	1,522

Trademarks and goodwill are not being amortized but are reviewed for impairment annually or more frequently when events or circumstances indicate that the carrying amount may be impaired. The Company's three operating segments have been defined as reporting units for purposes of testing goodwill for impairment. Goodwill has been assigned to each of the Company's segments.

During the second quarter of 2005, goodwill was reduced by \$1.6 million related to the favorable resolution of the Internal Revenue Service audit for periods prior to the Company's emergence from bankruptcy.

On March 21, 2005, the Company, through its majority owned subsidiary, APC, purchased shares of APC owned by Raymark. This acquisition was accounted for using the purchase method of accounting in accordance with SFAS No. 141, "Business Combinations". The cost of the acquisition was allocated to the assets acquired and liabilities assumed based on estimates of their respective fair values at the time of the acquisition. Fair values were determined by internal analysis and independent third party appraisals. The preliminary allocation of the purchase price resulted in the recognition of intangible assets of \$129, consisting of unpatented technology \$22, distribution base \$21 and trademarks \$86.

-20-

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 6 - Debt

Debt at July 3, 2005 and January 2, 2005 consists of the following:

	July 3, 2005			January 2, 2005		
	Current	Non-Current	Total	Current	Non-Current	Total
Domestic bank debt						
Line of credit	\$ 13,729	\$ -	\$ 13,729	\$ 10,762	\$ -	\$ 10,762
Term loans						
Domestic OEM	1,055	2,462	3,517	1,055	3,078	4,133
Aftermarket	996	4,337	5,333	996	4,837	5,833
Total domestic bank debt	15,780	6,799	22,579	12,813	7,915	20,728
Foreign bank debt						
Line of credit	-	-	-	-	-	-
Term loans						
Europe	941	2,568	3,509	1,056	3,406	4,462
Asia	1,300	-	1,300	1,300	-	1,300
Total foreign bank debt	2,241	2,568	4,809	2,356	3,406	5,762
Total bank debt	18,012	9,367	27,388	15,169	11,321	26,490
Note payable -						
Aftermarket	-	7,200	7,200	-	-	-
Leases	126	218	344	111	95	206
Total debt	\$ 18,147	\$ 16,785	\$ 34,932	\$ 15,280	\$ 11,416	\$ 26,696

The carrying value of the Company's debt approximates fair value.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 6, continued

The Company, through its Domestic OEM segment subsidiaries, Raybestos Products Company (“RPC”), and Raybestos Automotive Components Company (“RACC”), maintains a Loan and Security Agreement, which provides for RPC and RACC to borrow up to \$25.3 million in the aggregate. The agreement, as amended in November 2003, consists of a \$20 million revolving line of credit and a term loan of \$5.3 million. The revolving line of credit is limited through a formula which provides availability based on qualified accounts receivable and inventory. The revolving line of credit matures September 28, 2006. The term loan is payable in 34 monthly payments of \$88, commencing December 1, 2003 and maturing on September 28, 2006, with the final payment being the remainder of the balance. The revolving line of credit and the term loan are collateralized by accounts receivable and inventory. At July 3, 2005, the amount available under the revolving line of credit was \$2.9 million. Amounts outstanding under the revolving line of credit bear interest at a rate equal to, at the Company’s option, the prime rate or the adjusted Eurodollar rate, plus a margin of 0.50% and 2.75%, respectively. Amounts outstanding under the term loan bear interest at a rate equal to, at the Company’s option, the prime rate or the adjusted Eurodollar rate, plus a margin of 0.75% and 3.00%, respectively. The agreement contains financial and other covenants, including a fixed charge coverage ratio and a material adverse change clause. At July 3, 2005 and January 2, 2005, the aggregate pledged assets of RPC and RACC amounted to \$64.4 million and \$62.1 million, respectively, consisting of cash, accounts receivable, inventory, machinery and equipment and all other tangible and intangible assets, except real property. The agreement permits RPC and RACC to pay dividends to the Company for costs and expenses incurred by the Company in the ordinary course of business so long as no event of default has occurred and is continuing. During the second quarter of 2004, the Company entered into a fifth amendment to this agreement. The fifth amendment alters the determination of availability under the revolving line of credit to exclude certain receivables due to a potential right of setoff and grants the lender a mortgage on the real property owned by RPC, located in Sterling Heights, Michigan. The carrying value of the real property in Sterling Heights, Michigan was \$4.8 million at July 3, 2005. Further, in accordance with the fifth amendment, the lender may make loans, subject to certain limits, under the revolving line of credit up to the lesser of the amount of the excluded receivables or \$1.9 million. During the fourth quarter of 2004, the Company entered into a sixth amendment to this agreement. Under the sixth amendment, the lender waives certain defaults that may arise as a result of an agreement between the Company and a certain customer. During the first quarter of 2005, the Company entered into a seventh amendment to this agreement. The seventh amendment modifies the fixed charge coverage ratio to exclude a one-time forgiveness of certain intercompany receivables recorded by RPC during the first quarter of 2005, related to the closure of the RUK facility, clarifies the periods to be included in the calculation of the fixed charge coverage ratio in the future and provides a remedy for future non-compliance by an irrevocable cash contribution by the parent.

The Company, through its subsidiaries Raytech Powertrain, Inc. (“RPI”), APC, Raytech Systems, Inc. (“RSI”) and Raybestos Powertrain, LLC, is party to a loan agreement for \$7.0 million with an interest rate at 1.65 basis points over the adjusted Eurodollar rate with a five-year term. The loan is payable in 59 monthly payments of \$83, commencing on December 1, 2003, with a balloon payment of \$2.1 million payable on November 3, 2008. The proceeds from this facility were used to pay environmental costs and pension costs. The loan is collateralized by the assets of the borrowing entities. The agreement contains financial and other covenants, including the maintenance of certain financial ratios and a material adverse change clause. At July 3, 2005 and January 2, 2005, the aggregate pledged assets of APC, RSI, RPI and Raybestos Powertrain, LLC were \$39.4 million and \$44.1 million, respectively. During the first quarter of 2005, the Company entered into the first amendment to this agreement. The first amendment modifies the calculation of the debt service coverage ratio to exclude fifty percent of distributions to the borrower’s parent company.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 6, continued

The Company's wholly-owned German subsidiary, Raybestos Industrie-Produkte GmbH ("RIP"), has available lines of credit with several German banks. Interest is charged at rates between 3.80% and 10.75%. The lines are repayable on demand. At July 3, 2005 and January 2, 2005, there were no borrowings outstanding under these lines of credit.

The Company's wholly-owned German subsidiaries, Raytech Composites Europe GmbH ("RCE") and RIP have various loan agreements with outstanding loans at July 3, 2005 of \$3.4 million with the maturities ranging from September 2005 through December 2012. The loans are payable in equal periodic installments (usually quarterly or semi-annually) over the term of the loan. The loans bear interest at rates ranging from 2.50% through 6.17%. At July 3, 2005 and January 2, 2005, respectively, the aggregate pledged assets, consisting of machinery and equipment, amounted to EUR15.5 million (\$18.7 million) and EUR14.8 million (\$20.1 million).

During the periods presented, the Company's wholly-owned Chinese subsidiary Raybestos Friction Products (Suzhou) Co. Ltd. ("RFP") had several loan agreements. The loans are short-term and payable at maturity. The balance at July 3, 2005 and January 2, 2005 was \$1.3 million. The Company refinanced the outstanding loans in May 2005 into one loan agreement. The loan matures in April 2006.

On March 21, 2005, the Company, through its majority owned subsidiary, APC, purchased shares of APC owned by Raymark and in payment therefor, APC issued a ten year unsecured subordinated promissory note in the initial principal amount of \$7.2 million (the "Note"). The Note is subordinated to APC's existing and future senior indebtedness and bears interest at an annual rate of 8.00% payable quarterly; one-half of which is payable in cash and one-half of which is payable, at APC's option, in either cash or by increasing the outstanding principal amount of the Note. Principal payments on the Note are due on each annual anniversary of the issue date of the Note, beginning in 2011, at an annual rate of 3.00% of the then outstanding principal balance, with a final payment in full in 2015. APC may redeem the Note, in whole or in part, at any time without premium or penalty. In addition to certain financial reporting requirements, the Note contains net worth and current ratio covenants as well as merger and asset sale limitations, which if not met could cause an event of default permitting the holder of the Note to accelerate the repayment of the entire principal amount and all accrued interest then outstanding under the Note.

The weighted average rates on all domestic and foreign debt at July 3, 2005 and January 2, 2005 were 6.17% and 4.85%, respectively.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 7 - Litigation

Environmental Remediation

Crawfordsville, Indiana - Shelly Ditch Contamination Removal

In October 1987, RPC, a wholly-owned subsidiary of the Company, purchased a major manufacturing facility (the "RPC Facility") in Crawfordsville, Indiana. Sometime thereafter, the Company learned that the previous owner of the RPC Facility had released polychlorinated biphenyls ("PCBs") to the ground at the RPC Facility in the mid-1960s and that such PCBs were leaching from the RPC Facility into an adjacent ditch ("Shelly Ditch").

In 1996, the Indiana Department of Environmental Management (the "IDEM") advised RPC that the RPC Facility may have contributed to, and was potentially responsible for, the release of lead and PCBs found in Shelly Ditch. In the late 1990s, RPC and the IDEM entered into an agreed order (the "Agreed Order") for a risk-based remediation of PCBs and lead in Shelly Ditch. When the IDEM later sought to unilaterally withdraw from the Agreed Order, RPC appealed and the Marion County Superior Court ordered the IDEM to reinstate the Agreed Order. Meanwhile, at the IDEM's request, the United States Environmental Protection Agency (the "EPA") became involved in Shelly Ditch.

In December 2000, before the Agreed Order was reinstated, the EPA issued a Unilateral Administrative Order to RPC under CERCLA (the "EPA Removal Order") demanding removal of contaminated soils from those Shelly Ditch areas identified as Reaches 1 through 3 (the "Site"). The EPA Removal Order required more work at greater expense than the IDEM Agreed Order. Thereafter, RPC proceeded with the work required under the EPA Removal Order.

On January 9, 2004, the EPA confirmed that RPC had completed the action required under the EPA Removal Order, including the removal and proper disposal of Site soils and sediments contaminated with PCBs and lead. In its confirmation, the EPA noted that RPC would continue to be subject to certain obligations under that order, including record retention and the payment of oversight costs. Whether RPC will be required to pay oversight costs relating to the work under the EPA Removal Order will depend on the outcome of future negotiations with the EPA and the IDEM regarding potential environmental remediation downstream of the Site.

By July 3, 2005, RPC had spent approximately \$18.7 million on removal of lead and PCB contaminated soils from the Site. RPC had accrued \$.4 million for potential EPA oversight costs relating to that work, which is its best estimate of all remaining oversight costs. The Company believes that any cost in excess of the accrued amount related to this matter will not be material.

Crawfordsville, IN - Environmental Remediation Downstream of the Site

On May 6, 2003, the EPA indicated that RPC is potentially liable for PCB and lead contamination downstream of the Site. The EPA has not issued an order to RPC regarding this downstream area. However, during the third quarter of 2003, the Company began negotiations with the EPA concerning such possible additional remediation. As a result, during the third quarter of 2003, the Company recorded a \$2.4 million accrual relating to this potential liability for investigative and future cleanup costs. The Company has an accrual of \$2.1 million at July 3, 2005, which is its best estimate of the costs, including oversight costs, that will be incurred related to this matter. The Company believes that any cost in excess of the accrued amount related to this matter will not be material.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 7, continued

Crawfordsville, IN - Environmental Remediation and Expenses relating to the RPC Facility

On May 15, 2001, the EPA issued a Pre-filing Notice and Opportunity to Confer to RPC (the "Pre-filing Notice"). This notice stated that the EPA might file a civil action lawsuit against RPC for violations of various environmental statutes and would offer RPC the opportunity to participate in pre-filing negotiations to resolve this matter. The EPA stated that it had reason to believe that RPC committed violations of the Clean Air Act, Clean Water Act, Resource Conservation and Recovery Act, and Toxic Substances Control Act and that RPC could be subject to substantial penalties. On September 3, 2003, the EPA proposed that the parties settle the Pre-filing Notice. The EPA stated that penalties for violations alleged in the Pre-filing Notice could total approximately \$180.0 million and suggested the following resolution: RPC should pay approximately \$2.4 million in fines and undertake compliance activities, on-site investigative work that the EPA estimated would cost about \$1.0 million, and corrective action to resolve the Pre-filing Notice. During 2004, RPC performed on-site investigative work. RPC is currently engaged in further investigative work and negotiations with the EPA regarding potential on-site corrective action and the amount of any penalty. The Company has an accrual of \$3.4 million as of July 3, 2005, based on the EPA position, which is its best estimate of the costs related to this matter. The Company does not have any additional information, beyond what is discussed above, that would suggest a range of loss. The Company is currently working with environmental engineers and the EPA to determine the extent of corrective action, if any, required.

Ferndale, MI - Potential Responsibility for Environmental Remediation

In a January 8, 2002 letter, the Michigan Department of Environmental Quality ("MDEQ") asserted that the Company might have responsibility for trichloroethylene contamination at a Ferndale, Michigan industrial site that Advanced Friction Materials Company ("AFM") leased from approximately 1974 to 1985. The Company acquired 47% of the stock of AFM in 1996 and the balance of the shares in 1998. The Company has not received any communications from MDEQ since 2002 and has insufficient knowledge to estimate a reasonably possible range of loss for the alleged contamination. No liability has been accrued as of July 3, 2005.

Environmental Litigation

Cost Recovery Actions against Insurers regarding Shelly Ditch

In 1996, RPC notified its insurers and demanded defense and indemnity regarding any environmental issues relating to alleged lead and PCB contamination of Shelly Ditch. In January 1997, one insurer filed a complaint in the U.S. District Court, Southern District of Indiana, captioned Reliance Insurance Company vs. Raybestos Products Company (the "Insurance Case"). The complaint sought a declaratory judgment that the Reliance Insurance policies do not provide coverage to RPC for defense and indemnity relating to investigation and remediation of contamination in Shelly Ditch. In January 2000, the District Court rejected Reliance's claims and granted summary judgment to RPC. In June 2001, Reliance Insurance Company was placed in liquidation in Pennsylvania. The Company has filed claims in the Reliance liquidation for recovery of its Shelly Ditch expenses but has not received a decision.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 7, continued

In February 2002, RPC filed a third-party complaint in the Insurance Case against three insurance carriers. The third-party complaint seeks defense and indemnity from the insurers relating to investigation and remediation of contamination in Shelly Ditch. Later that year, two of the insurance carriers, USF&G and Westchester, filed motions to compel arbitration of the insurance coverage issues under these policies. The U.S. District Court denied these motions to compel and the two insurance companies appealed to the U.S. Court of Appeals for the Seventh Circuit ("Appeals Court"). On August 27, 2004, the Court of Appeals reversed the District Court's order refusing to compel such arbitration and remanded the case to the District Court for entry of an order compelling arbitration. On October 15, 2004, the District Court entered its order compelling arbitration and RPC promptly submitted the USF&G and Westchester insurance issues to arbitration. On August 9, 2005, RPC agreed to settle its claims against USF&G for, among other things, a payment by USF&G. On August 10, 2005, the arbitration panel granted the insurers' motions for summary determination and denied a motion for summary determination by RPC, ruling that the USF&G and Westchester insurance policies do not provide coverage for defense and indemnity of the Shelly Ditch remediation expenses. The Company has not decided whether to appeal this ruling.

In February 2004, the third insurance carrier, National Union and its affiliates, commenced an adversary proceeding against the Company, RPC and others by filing a complaint in U.S. Bankruptcy Court (the "Adversary Proceeding"). In the Adversary Proceeding, National Union claims that RPC's complaint against National Union is barred by a 2002 order of the U.S. Bankruptcy Court in the Raymark Chapter 11 cases that prohibits RPC from pursuing its third-party complaint against National Union and declares that the National Union insurance policies issued to the Company and RPC have been exhausted. Also in February 2004, National Union filed a motion in the U.S. District Court, Southern District of Indiana, asking that court to stay the Insurance Case against National Union. On September 10, 2004, the U.S. District Court granted National Union's motion for stay. The outcome of this Adversary Proceeding and related stay and their effects, if any, on the Insurance Case against National Union cannot be predicted.

RPC believes that a recovery from National Union and Reliance Insurance of a substantial portion of the environmental costs described above is reasonably possible. However, due to the uncertainty and complexity of the legal issues involved in the litigation against the carriers, RPC has not recorded any recovery and the liabilities have been recorded on a gross basis.

RPC Claims against IDEM

In July 2002, RPC filed an action against the IDEM for breach of contract claiming damages based on the difference between the costs of cleanup under the EPA Removal Order and the IDEM Agreed Order. The outcome of this litigation cannot be predicted. Trial of this matter began in August 2005 and is expected to conclude in September 2005, but the court has stated it will not render a judgment until early 2006.

Commercial Litigation

On April 22, 2003, Automation by Design, Inc. ("ABD") filed a civil action against RPC in U.S. District Court for the Southern District of Indiana. The complaint alleged copyright infringement and breach of contract in connection with RPC's purchase of certain equipment. RPC denied liability and filed counterclaims for breach of contract and declaratory judgment. The court granted ABD's motion to amend its complaint to include as defendants Raytech Corporation and Production Design Services, Inc., which manufactured certain equipment allegedly involved in this

court action and which RPC agreed to defend and indemnify against certain liabilities. On December 8, 2004, the District Court granted RPC's motion for summary judgment, ruling that ABD's claims fail as a matter of law. In July 2005, RPC was awarded reimbursement of its costs (not including attorneys' fees) incurred in defending the action. The amount of

-26-

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 7, continued

which was not material. ABD has filed an appeal of the summary judgment ruling. The Company does not believe that the outcome of this litigation will have a material adverse effect on its consolidated results of operations, financial condition or cash flows.

Litigation Costs

The Company does not accrue probable and estimable litigation costs related to any of the above litigation. The Company accrues legal costs when they are incurred.

The Company is subject to certain other legal matters that have arisen in the ordinary course of business, and management does not expect them to have a significant adverse effect on the results of the Company's consolidated operations, financial condition or cash flow.

Note 8 - Segment Reporting

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

Domestic OEM

The Domestic OEM segment manufactures and distributes automatic transmission and wet wheel brake system components. The Company markets its products to automobile, heavy duty truck, farm machinery, mining, and bus original equipment manufacturers ("OEMs") in North America.

International

The International segment manufactures and distributes automatic transmission, manual transmission and wet wheel brake system components. The Company markets its products to automobile, heavy duty truck, farm machinery, mining, and bus OEMs. The International segment markets its dry friction products worldwide and its wet friction products throughout Europe and Asia.

Aftermarket

The Aftermarket segment produces specialty engineered products primarily for automobile and light truck automatic 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.

Corporate

The Corporate group consists principally of corporate expenses, including costs to maintain the corporate headquarters, certain environmental costs, and certain assets, liabilities and related income and expense stemming

from the reorganization plan implemented when the Company emerged from bankruptcy in 2001. The Company has chosen not to distribute these costs to the operating segments to preserve the historical comparability at the operating segment level.

-27-

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 8, continued

Information relating to operations by industry segment follows:

	For the 13 weeks ended		For the 26 weeks ended	
	July 3,	June 27,	July 3,	June 27,
	2005	2004	2005	2004
Net Sales				
Domestic OEM	\$ 36,617	\$ 32,361	\$ 70,810	\$ 63,763
International	17,461	16,864	37,425	33,517
Aftermarket	12,799	13,616	26,833	26,002
Intersegment elimination (1)	(6,271)	(4,436)	(11,110)	(8,279)
Net sales to external customers	\$ 60,606	\$ 58,405	\$ 123,958	\$ 115,003
Gross Profit				
Domestic OEM	\$ 1,634	\$ 4,521	\$ 4,283	\$ 8,417
International	4,116	4,647	10,333	9,436
Aftermarket	2,782	4,304	6,723	7,989
Corporate and intersegment elimination	(1,581)	(943)	(2,392)	(2,254)
Consolidated	\$ 6,951	\$ 12,529	\$ 18,947	\$ 23,588
Operating Profit (loss)				
Domestic OEM	\$ (1,388)	\$ 1,583	\$ (1,985)	\$ 2,736
International	248	1,959	2,818	4,057
Aftermarket	1,162	2,669	3,302	4,819
Corporate	(3,535)	(4,106)	(5,657)	(7,050)
Consolidated	\$ (3,513)	\$ 2,105	\$ (1,522)	\$ 4,562
Income before provision for income taxes and minority interest				
Domestic OEM	\$ (5,445)	\$ 897	\$ (6,717)	\$ 1,567
International	(5,164)	1,773	8,027	3,959
Aftermarket	998	2,580	3,105	4,814
Corporate and intersegment elimination	(5,596)	(3,868)	(6,302)	(6,523)
Consolidated	\$ (4,879)	\$ 1,382	\$ (1,887)	\$ 3,817

(1) The Company records intersegment sales at an amount negotiated between the segments. All intersegment sales are eliminated in consolidation. Substantially all intersegment sales are sales of Domestic OEM products to the Aftermarket segment.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 9 - Income Taxes

The tax provision recorded for the thirteen-week period ended July 3, 2005 is \$0.1 million compared to a provision of \$1.0 million for the same period in the prior year. The tax provision recorded for the twenty-six-week period ended July 3, 2005 is \$1.3 million compared to a provision of \$1.9 million for the same period in the prior year. During the current period, the Company recognized foreign taxes associated with operations in Germany and China and state taxes generated by domestic operations. The Company did not recognize any tax benefits associated with the losses generated by the U.S. domestic operations or its United Kingdom operations, due to doubts concerning their future recoverability, in the thirteen-week period ended July 3, 2005.

During the thirteen and twenty-six week periods ended July 3, 2005, the Company also recorded a \$1.6 million reduction to goodwill based on the final outcome of an IRS audit for 1996 through 2001 as approved by the Congressional Joint Committee on Taxation on June 22, 2005. The settlement results in no payment of Federal tax given the Company's net operating losses.

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 July 3, 2005, the Company has tax loss carryforwards of \$92.2 million and tax credit carryforwards of \$2.7 million. The net operating loss carryforwards are allocated between the Company and the PI Trust in the amounts of \$25.0 million and \$67.2 million, respectively. NOL carryforwards that inure to the PI Trust are set to expire between 2021 and 2024. The tax credit carryforwards all 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 allocated to the PI Trust, and certain contributions made to the Raymark pension plans. Losses generated by the Company subsequent to the emergence from bankruptcy, exclusive of losses attributed to the payments discussed above, will be retained by the Company. The method of allocation in utilizing current and future operating losses between the PI Trust and the Company has not been formally determined at this time. However, the Company has allocated the net operating losses between the PI Trust and the Company based on year of origin. Alternatively, the method of allocation of current and future net operating losses between the Company and the PI Trust might be such that those generated by the PI Trust would be utilized before those generated by the Company or vice versa. Utilizing the net operating losses of the PI Trust first would require the Company to reimburse them for the tax benefit associated with their net operating losses of \$67.2 million, resulting in additional cash flow for the PI Trust. Conversely, if the net operating losses of the Company were to be utilized first, it would result in additional cash flow for the Company. Although the timing cannot be determined with certainty, it is reasonably expected that the method of allocation for using current and future operating losses will be formalized in the next nine months. Further, it is expected that the formalized agreement with the PI Trust will reflect the utilization of the net operating losses based on a pro rata allocation using the year of origin in which the net operating loss was created, which is the method utilized currently by the Company in accounting for these transactions. Additional tax recoveries, expected to be received in future periods, are recorded as deferred tax assets, net of valuation allowances, and a deferred payable to the PI Trust, which amounted to \$3.6 million and \$4.6 million at July 3, 2005 and January 2, 2005, respectively.

During the twenty-six-week period ended July 3, 2005, the Company recorded a \$1.0 million decrease in the deferred payable to the PI Trust due to the acquisition of the shares of APC owned by Raymark on March 21, 2005, as discussed in Note 13, and the resultant inclusion of APC in the group's consolidated U.S. tax return. As part of the purchase accounting, the Company reassessed the realizability of APC's deferred tax assets using the "more likely than

not” criteria specified by SFAS No. 109, “Accounting for Income Taxes”, and determined that a full valuation allowance should be provided against them. As a result of this change in the deferred tax accounts, the Company has updated its deferred tax scheduling analysis and

-29-

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 9, continued

determined that the deferred payable to the PI Trust should be reduced by \$1.0 million and \$1.4 million of additional valuation allowance is required of which \$1.0 million is attributable to the PI Trust and \$400 to the Company. The benefit of the reduction in the deferred payable to the PI Trust has been recorded as other income in the Condensed Consolidated Statement of Operations. Future changes in the composition and reversal patterns of the Company's deferred tax assets and liabilities may impact the deferred tax asset that inures to the benefit of the PI Trust and the related deferred payable. The impact on the deferred payable to the PI Trust could cause a corresponding impact on pre-tax income.

At July 3, 2005, the Company has recorded a tax receivable in the amount of \$1,639, of which \$1,596 is due from the Federal Government due to the final settlement with the IRS discussed above and \$43 is due from state governments. The state refunds inure to the benefit of the PI Trust. In July 2005, the Company received \$1.0 million from the Federal Government, which has been paid to the PI Trust.

-30-

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 10 - Earnings Per Share

	13 weeks ended			26 weeks ended		
	July 3, 2005	July 3, 2005	June 27, 2004	July 3, 2005	July 3, 2005	June 27, 2004
	As Restated	As Previously Reported		As Restated	As Previously Reported	
Net income	(4,956)	(3,356)	57	(3,336)	(1,736)	1,408
Weighted average shares	41,737,306	41,737,306	41,737,306	41,737,306	41,737,306	41,737,306
Basic and diluted earnings per share	(0.12)	(0.08)	-	(0.08)	(0.04)	0.03

Options to purchase 1,251,615 shares of common stock were not included in the computation of diluted earnings per share for the thirteen and twenty-six weeks ended July 3, 2005 and options to purchase 3,034,414 shares of common stock were not included in the computation of diluted earnings per share for the thirteen and twenty-six weeks ended June 27, 2004 due to their anti-dilutive effect due either to their exercise price compared to the market price or the Company incurring a loss for the period.

Note 11 - Pension and Post Retirement Benefit PlansComponents of Net Periodic Benefit Cost

	Pension Benefits		Post Retirement Benefits	
	For the thirteen weeks ended			
	July 3, 2005	June 27, 2004	July 3, 2005	June 27, 2004
Service Cost	\$ 130	\$ 146	\$ 252	\$ 197
Interest Cost	619	698	365	290
Expected return on plan assets	(698)	(636)	-	-
Amortization of prior service cost	15	15	-	-
Amortization of net (gain) loss	113	128	110	41
Net periodic benefit cost	\$ 179	\$ 351	\$ 727	\$ 528

	Pension Benefits		Post Retirement Benefits	
	For the twenty-six weeks ended			
	July 3, 2005	June 27, 2004	July 3, 2005	June 27, 2004
Service Cost	\$ 260	\$ 292	\$ 504	\$ 394
Interest Cost	1,238	1,394	729	580
Expected return on plan assets	(1,396)	(1,271)		

Amortization of prior service cost		30		69			
Amortization of net (gain) loss		227		215		221	81
Net periodic benefit cost	\$	359	\$	699	\$	1,454	\$ 1,055

On December 8, 2003, President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The act introduces a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The current measurements of accumulated postretirement benefit obligations and net periodic benefit costs do not reflect any amount associated with the subsidy as the Company believes that the benefits provided by the plan are not actuarially equivalent to the Medicare Part D Standard Plan.

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 11, continued

The Company previously disclosed in its financial statements for the year ended January 2, 2005, that it expected to contribute \$2.2 million to its pension plans and \$.9 million to fund its post retirement plan in 2005. As of July 3, 2005, \$.1.5 million of contributions have been made. The Company presently anticipates contributing an additional \$1.6 million to fund its pension and post retirement plans in 2005.

In connection with the Company's Chapter 11 proceedings, the Pension Benefit Guaranty Corporation ("PBGC") filed certain motions claiming that the Company was responsible for the funding and sponsorship of two Raymark Corporation pension plans. The court ordered that the Company was liable for the maintenance and funding of the underfunded pension plan obligations of Raymark Corporation. The Company, based on the court's order, assumed the role of plan sponsor of the Raymark Plans upon emergence from bankruptcy. The Company obtained a deferral of its funding obligations for 2000. Since obtaining the deferral, the Company has made funding payments to the Raymark Plans as required. As of July 3, 2005, the outstanding balance of the deferred amounts was approximately \$.8 million. During 2004, the Company executed a mortgage of its real property located in Crawfordsville, Indiana to the PBGC, guaranteeing its remaining deferred funding obligations of the Raymark Plans. At July 3, 2005 the carrying value of the real property mortgaged was \$4.6 million.

Note 12 - Restructuring Programs

During 2004, the Company conducted a facilities utilization review and made the decision to close its manufacturing operations in Sterling Heights, Michigan and Liverpool, England. The closure of these facilities is expected to be completed during 2005. Additionally, during 2004, the Company began the process of relocating its corporate functions from Shelton, Connecticut to its existing manufacturing and development facilities located in Crawfordsville, Indiana. The closure of the Shelton corporate offices is expected to be completed during 2005.

Restructuring expense of \$1.2 million was recorded in the thirteen-week period ended July 3, 2005 as a change in estimate of the closure costs for the U.K. facility. Additional information has been received for estimation of final refurbishment costs of \$.6 million and lease cost of \$.6 million for exiting the facility. Additional severance costs were booked in the first quarter of \$.1 million; the total restructuring costs for the U.K. booked in 2005 aggregate to \$1.3 million at July 3, 2005.

The table below sets forth the Company's estimate of the total cost of the restructuring programs, the portion recognized through July 3, 2005 and the portion expected to be recognized in a future period:

	July 3, 2005 Expected Total Cost	Recognized Through July 3, 2005	To Be Recognized In Future
Severance and termination benefits	\$ 4,127	\$ 3,957	\$ 170
Lease termination costs	530	530	-
Asset impairment	1,610	1,610	-
Other	2,113	1,390	723
	\$ 8,380	\$ 7,487	\$ 893

RAYTECH CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, unless otherwise noted, except per share data)
(unaudited)

Note 12, continued

The employee severance and termination benefits relate to the elimination of approximately 300 employees, most of which are engaged in manufacturing activities at the Sterling Heights, Michigan and Liverpool, England facilities. The portion of the severance and termination benefits cost expected to be incurred, but not recognized through July 3, 2005, relates principally to one-time retention or vesting benefits that will be earned and recognized over the future service period of the employees. The Company anticipates that the remaining expense will be recognized prior to the end of fiscal 2005 and that these amounts will be paid during 2005 and 2006.

The lease termination costs relate to the Liverpool, England facilities. The estimated cost is based on the Company's ongoing discussions with the landlord and does not include the full minimum lease commitment based on the original terms of the lease. The Company expects that these costs will be recognized and paid in a future period during 2005, when the facilities are vacated. These estimates do not include any costs associated with terminating the Shelton, Connecticut lease, which are not anticipated to be material.

The asset impairment charge relates to equipment located at the Liverpool, England facilities, determined to be impaired as a result of the decision to close those facilities. The equipment at the Sterling Heights, Michigan facility was deemed to be impaired and written down to liquidation value in 2003, due to the lack of profitability at that facility.

The other restructuring costs relate principally to accelerated depreciation of \$.6 million associated with the shortening of the useful lives of certain equipment as a result of the decision to close the facilities and other costs associated with exiting the facilities.

All of the restructuring costs except the asset impairment and accelerated depreciation will result in cash outflows.

The table below sets forth the activity with respect to the restructuring during the twenty-six weeks ended July 3, 2005:

	Severance and Termination Benefits	Asset Impairment	Other	Total
Balance January 2, 2005	\$ 3,104	\$ -		