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RAYTECH CORP
Form 10-K
March 26, 2001

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

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

for the Fiscal Year ended December 31, 2000 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
(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 Office)

06484
(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 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 2, 2001, 3,519,313 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 \$10.9 million.

Documents incorporated by reference: None

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Item 1. Business

(a) General Development of Business.

Raytech Corporation ("Raytech" or the "Company") was incorporated in June 1986 in Delaware as a subsidiary of Raymark Corporation ("Raymark"). In October 1986, the Raymark shareholders approved a triangular merger restructuring plan resulting in Raytech becoming the publicly traded (NYSE) holding company of Raymark with each share of the Raymark common stock being automatically converted to a share of Raytech common stock, plus a right to purchase a warrant for Raytech stock. The issued warrants expired in October 1994. The purpose of the formation of Raytech and the restructuring plan was to provide a means to gain access to new sources of capital and borrowed funds to be used to finance the acquisition and operation of new businesses in a corporate structure that should not subject it or such acquired businesses to any asbestos-related or other liabilities of Raymark under the doctrines of successor liability, piercing the corporate veil and fraudulent conveyance.

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In accordance with the stated restructuring purposes, Raytech, through its subsidiaries, purchased certain non-asbestos businesses of Raymark in 1987, including the Wet Clutch and Brake Division for \$76.9 million and Raybestos Industrie-Produkte GmbH, a German subsidiary for \$8.2 million. In anticipation of such sales, Raymark retained independent investment bankers and financial analysts for the purpose of determining fair purchase prices and divestiture. Representing part of the consideration of the transactions, Raymark agreed to indemnify Raytech for Raymark's liabilities, including asbestos, environmental, pension and others.

In May 1988, Raytech divested all of the Raymark stock to Asbestos Litigation Management, Inc. The purchase price of the stock was affected by Raymark's substantial asbestos-related liabilities.

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. Until February 1989, the defense of all such lawsuits was provided to Raytech by Raymark in accordance with the indemnification included as a condition of the purchase of the Wet Clutch and Brake Division and the German subsidiary from Raymark in 1987. In February 1989, an involuntary petition for bankruptcy was filed against Raymark, causing Raymark to be unable to continue funding the costs of defense to Raytech in the asbestos-related lawsuits referenced above.

With the loss of defense from Raymark, the defense of such lawsuits shifted directly to Raytech as it had no insurance providing coverage for asbestos-related liabilities. As a result of the above factors and to halt the asbestos-related litigation, in March 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. Under Chapter 11, substantially all litigation against Raytech was stayed while the debtor corporation and its non-filed operating subsidiaries continue to operate their businesses in the ordinary course under the same management and without disruption to employees, customers or suppliers. The bankruptcy proceedings imposed little or no limitation to the manufacturing and selling of products and other day-to-day operations of the businesses.

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 on the grounds stated in the District Court's opinion. The effect of this decision extended beyond the Oregon District due to a 1995 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 and a petition for a writ of certiorari was denied by the U.S. Supreme Court in October 1995. (For a further discussion regarding this liability and bankruptcy proceedings, refer to Item 3. Legal Proceedings herein.)

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In October 1998, Raytech reached a tentative settlement with its creditors to achieve a consensual plan of reorganization. The settlement provided for all general unsecured creditors, including asbestos and environmental claimants, to receive 90% of the equity of the Company and existing equity holders to retain the remaining 10% of the equity. In fulfillment of the settlement, on August 31, 2000, the consensual plan of reorganization ("Plan") was confirmed by the Bankruptcy Court. The Plan is not yet effective pending fulfillment of certain conditions.

Barring an unforeseen downturn in business and assuming that the confirmed reorganization plan to control its legal responsibility for Raymark's asbestos-related and other liabilities will be made effective in the bankruptcy proceedings, Raytech believes it will generate sufficient cash flow to satisfy 2001 debt maturities, working capital and capital spending needs. However, the outcome of these matters is uncertain and should Raytech be held fully liable, there would be a material adverse impact on Raytech as it does not have the resources needed to fund the substantial uninsured asbestos-related, employee

benefit-related and environmental liabilities and related costs of litigation as defined further in Item 3. Legal Proceedings.

(b) Financial Information About Industry Segments

The sales and operating income of Raytech on a consolidated basis, and its identifiable assets for the fiscal years ended December 31, 2000, January 2, 2000, and January 3, 1999 are set forth herein starting on page 73.

(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

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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:

	2000	1999	1998
Wet friction operations	64%	62%	63%
Dry friction operations	12%	13%	13%
Aftermarket operations	24%	25%	24%

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

Sales Methods

The wet friction operations, predominantly a domestic operation, serves 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 2001 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

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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:

	2000	1999	1998
Caterpillar	13.0%	11.9%	12.4%
DaimlerChrysler	15.4%	14.8%	14.9%
Allison	7.7%	10.2%	9.2%

Sales backlog for the wet friction segment at the end of 2000, 1999, and 1998 was approximately \$72 million, \$92 million, and \$69 million, respectively. It is anticipated that current backlog will be filled in 2001.

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 2000, 1999, and 1998 was approximately \$.7 million, \$.7 million, and \$0 million, respectively.

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

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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 2000, 1999, and 1998 was approximately \$6 million, \$9 million, and \$7 million, respectively. It is anticipated that current backlog will be filled in 2001.

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 31, 2000, Raytech employed approximately 1,642 employees, compared with 1,729 employees at the end of 1999. 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 2001.

Capital Expenditures

Capital expenditures were \$13.4 million, \$23.2 million, and \$19.8 million for 2000, 1999 and 1998, respectively. Capital expenditures for 2001 are projected at \$17.8 million.

Research and Development

Research and development costs were approximately \$6.8 million, \$7.1 million, and \$5.6 million for 2000, 1999 and 1998, respectively. 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 2001 are projected at \$9.3 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 \$1.1 million for 2001. 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

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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 fiscal years ended December 31, 2000, January 2, 2000, and January 3, 1999 is set forth in Note K to 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 455,000 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 of warehousing space for aftermarket distribution. 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.

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Item 3. Legal Proceedings

The formation of Raytech and the implementation of the restructuring plan more fully described in Item 1 above was for the purpose of providing a means to acquire and operate businesses in a corporate structure that should not be subject to any asbestos-related or other liabilities of Raymark.

Prior to the formation of Raytech, Raymark had been named as a defendant in more than 88,000 lawsuits, claiming substantial damages for injury or death from exposure to airborne asbestos fibers. Subsequent to the divestiture of Raymark in 1988, lawsuits continued to be filed against Raymark at the rate of approximately 1,000 per month until an involuntary petition in bankruptcy was filed against Raymark in February 1989 which stayed all its litigation. In August 1996, the involuntary petition filed against Raymark was dismissed following a trial and the stay was lifted. However, in March 1998, Raymark filed a voluntary bankruptcy petition again staying the litigation.

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. Until February 1989, the defense of all such lawsuits was provided to Raytech by Raymark in accordance with the indemnification included as a condition of the purchase of the Wet Clutch and Brake Division and German subsidiary from Raymark in 1987. In 1989, the involuntary bankruptcy proceedings against Raymark caused Raymark to be unable to fund the costs of defense to Raytech in the asbestos-related lawsuits referenced above. Raytech management was informed that Raymark's cost of defense and disposition of cases up to the automatic stay of litigation in 1989 under the involuntary bankruptcy proceedings was approximately \$333 million of Raymark's total insurance coverage of approximately \$395 million. It has also been informed that as a result of the dismissal of the involuntary petition, Raymark encountered newly filed asbestos-related lawsuits but had received \$27 million from a state guarantee association to make up the insurance policies of an insolvent carrier and had \$32 million in other policies to defend against such litigation. In March 1998, Raymark filed a voluntary bankruptcy petition as a result of several large asbestos-related judgments against it.

In October 1988, in a case captioned Raymond A. Schmoll v. ACandS, Inc., et al., the U.S. District Court for the District of Oregon ruled, under Oregon equity law, Raytech to be a successor to Raymark's asbestos-related liability. The successor decision was appealed by Raytech, and in October 1992, the Ninth Circuit Court of Appeals affirmed the District Court's judgment on the grounds stated in the District Court's opinion. The effect of this decision extends beyond the Oregon District due to a Third Circuit Court of Appeals decision in a related case cited below wherein Raytech was collaterally estopped (precluded) from relitigating the issue of its successor liability for Raymark's asbestos-related liabilities.

As the result of the inability of Raymark to fund Raytech's cost of defense recited above and to halt 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

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United States Bankruptcy Court, District of Connecticut. Under Chapter 11, substantially all litigation against Raytech was stayed while the debtor corporation and its non-filing operating subsidiaries continue to operate their businesses in the ordinary course under the same management and without disruption to employees, customers or suppliers. In the Bankruptcy Court a creditors' committee was appointed, comprised primarily of asbestos claimants' attorneys. In August 1995, an official committee of equity security holders was appointed relating to a determination of equity security holders' interest in the bankruptcy estate.

In June 1989 Raytech filed a class action in the Bankruptcy Court captioned Raytech v. Earl White, et al. against all present and future asbestos claimants seeking a declaratory judgment that it not be held liable as a successor for the asbestos-related liabilities of Raymark. The U.S. District Court withdrew its reference of the case to the Bankruptcy Court, and agreed to hear and decide the case. In September 1991, the U.S. District Court issued a ruling dismissing the class action citing as a reason the preclusive effect of the 1988 Schmoll case recited above under the doctrine of collateral estoppel (conclusiveness of judgment in a prior action), in which Raytech was ruled to be a successor to Raymark's asbestos liability under Oregon law. Upon a motion for reconsideration, the U.S. District Court affirmed its prior ruling in February 1992. Also, in February 1992, the U.S. District Court transferred the case in its entirety to the U.S. District Court for the Eastern District of Pennsylvania. Such transfer was made by the U.S. District Court without motion from any party in the interest of the administration of justice as stated by the U.S. District Court. In February 1994, the U.S. District Court's dismissal of the case was appealed. In May 1995, the Third Circuit Court of Appeals ruled that Raytech is collaterally estopped (precluded) from relitigating the issue of its successor liability as ruled in the 1988 Oregon case recited above, affirming the U.S. District Court's ruling of dismissal. A petition for a writ of certiorari was denied by the U.S. Supreme Court in October 1995. The ruling leaves the Oregon case, as affirmed by the Ninth Circuit Court of Appeals, as the prevailing decision holding Raytech to be a successor to Raymark's asbestos-related liabilities.

As the result of the Court rulings recited above holding Raytech a successor to Raymark's asbestos-related liabilities, Raytech halted payments to Raymark under the 1987 Asset Purchase Agreement in May 1995. However, in February 1997, with Raymark temporarily out of bankruptcy, Raytech resumed making payments pursuant to the Agreement. As the result of the creditors' committee's action to halt the payments, the Bankruptcy Court ordered the payments stopped in January 1998.

Costs incurred by the Company for asbestos-related liabilities are subject to indemnification by Raymark under the 1987 acquisition agreements. By agreement, in the past, Raymark has reimbursed the Company in part for such indemnified costs by payment of the amounts due in Raytech common stock of equivalent value. Under such agreement, Raytech received 926,821 shares in 1989, 177,570 shares in 1990, 163,303 in 1991 and 80,000 shares in 1993. The Company's acceptance of its own stock was based upon an intent to control dilution of its outstanding stock. In 1992, the indemnified costs were reimbursed by offsetting certain payments due Raymark from the Company under the 1987 acquisition agreements. Costs incurred since 1994 were applied as a reduction of the note obligations pursuant to the agreements.

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In March and April 1998, Raymark and its parent, Raymark Corporation, filed voluntary petitions in bankruptcy in a Utah Court which stayed all litigation in the Raytech bankruptcy in which Raymark was a party. In connection with asserting control over Raymark and its assets, the creditors' committee, Raytech, the Guardian ad litem for Future Claimants, the equity committee and the government agencies caused the Raymark bankruptcies to be transferred from Utah to the Connecticut Court. In October 1998, a trustee was appointed by the United States Trustee over the Raymark bankruptcies and is currently administering the Raymark estate.

In October, 1998 Raytech reached a tentative settlement with its creditors and entered into a Memorandum of Understanding with respect to achieving a consensual plan of reorganization (the "Plan"). The parties to the settlement included Raytech, the Official Creditors Committee, the Guardian ad litem for Future Claimants, the Connecticut Department of Environmental Protection and the U. S. Department of Justice, Environmental and Natural Resources Division. Substantive economic terms of the Memorandum of Understanding provided for all general unsecured creditors including but not limited to all asbestos and environmental claimants to receive 90% of the equity in reorganized Raytech and any and all refunds of taxes paid or net reductions in taxes owing resulting from the transfer of equity to a trust established under the Bankruptcy Code, and existing equity holders in Raytech to receive 10% of the equity in reorganized Raytech. The Memorandum of Understanding also requires that an amount of cash, which will be determined at the effective date, be transferred to the trust. The amount of cash has been estimated at \$2.5 million. Substantive non-economic terms of the Memorandum of Understanding provided for the parties to jointly work to achieve a consensual Plan, to determine an appropriate approach to related pension and employee benefit plans and to cease activities that have generated adverse proceedings in the Bankruptcy Court. The parties also agreed to jointly request a finding in the confirmation order to the effect that while Raytech's liabilities appear to exceed the reasonable value of its assets, the allocation of 10% of the equity to existing equity holders is fair and equitable by virtue of the benefit to the estate of resolving complicated issues without further costly and burdensome litigation and the risks attendant therewith and the economic benefits of emerging from bankruptcy without further delay.

In August 1999, the Bankruptcy Court set a bar date for filing claims against Raytech, resulting in approximately 3,200 claims. Such claims were categorized into asbestos personal injury, asbestos property damage, environmental, including the EPA and State of Connecticut, pension/retiree benefits and other employee related claims and other contractual and general categories. Through Court proceedings many of the filed claims were expunged, leaving only valid claims to be dealt with in the Plan. In order to comply with the mandatory estimation of all claims against the debtor in the confirmation process, Raytech, the creditors' committee and the Government entered into discussions to attempt to make estimations of the asbestos and Government claims not subject to the bar date. The discussions resulted in an agreement on the estimate of such asbestos and Government claims, and accordingly, a motion was filed in the Bankruptcy Court for an allowance of asbestos claims of \$6.760 billion and Government claims of \$431.8 million for purposes of voting and distribution under the terms of the Plan. In March 2000, the Bankruptcy Court entered an interim order allowing such amounts as general unsecured claims subject to an objection period

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through June 2000 and the completion of the initial vote of the Plan of confirmation on July 7, 2000. As a result of the resolution of the objections raised with only a slight modification to the Plan and the overwhelming favorable response to the initial vote, management was substantially certain that the Plan would be confirmed and that the estimate of the \$7.2 billion of allowed claims would be finally approved by the Bankruptcy Court. Accordingly, Raytech recorded a charge and related liability in the financial statements in the amount of \$7.2 billion for the estimated amount of allowed claims in the second quarter of 2000. Such estimations are recorded as liabilities subject to compromise since it is expected that the distributions under the Plan with respect to such claims will be lesser amounts consisting of a 90% equity distribution in reorganized Raytech at the effective date pursuant to the Plan referenced above in this Note A. Upon the effective date of the Plan, Raytech will utilize the "fresh start" reporting principles contained in the AICPA's Statement of Position 90-7, which will result in adjustments relating to the amounts and classification of recorded assets and liabilities determined as of the effective date. Under the Plan, the ultimate consideration to be received by all unsecured creditors will be covered under the referenced 90% equity distribution and will be substantially less than amounts shown in the accompanying financial statements.

In 1999, the Bankruptcy Court ("Court") issued rulings on adversary actions brought by Raymark retirees and pensioners seeking rights as claimants for benefits from Raytech on the basis of successor liability. As to the pensioners, the Court ruled that Raytech has the liability as a successor to Raymark. The decision has been appealed and remains pending. As noted in the previous paragraph, during the second quarter of 2000, management was substantially certain that the Plan would be confirmed and that the pension liability would be Raytech's responsibility, although under legal appeal. The resulting recorded charge and related liability estimated at \$16 million was recorded in the second quarter of 2000 and is subject to compromise based on the pending appeal. As to the retirees, the Court ruled that the Raymark Trustee's termination of the retirees benefit plans was justified and thus the post-termination liability thereafter could not be transferred to Raytech. In response to the bar date set for filing claims in 1999, approximately 700 retirees filed timely claims. The validity and the amount of claims were not estimated until the fourth quarter of 2000. The charge for the estimated amount of allowed claims of \$2.5 million was recorded in the fourth quarter of 2000, and the liability is subject to compromise. For both the PBGC and retiree claims, the Court has not yet determined if they will be classified as priority or unsecured claims. At December 31, 2000, they are both considered to be unsecured claims and included in liabilities subject to compromise pending final Court decision.

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. The Plan contained several conditions to the occurrence of the effective date of the Plan ("Effective Date"). The majority of the conditions have been met, and the remaining conditions to the Effective Date are the resolution of the Raymark claims and the requested tax-related rulings from the IRS or an opinion of counsel. It is unknown when the above-referenced conditions to the Effective Date will be satisfied, but it is management's intention that they will be met as

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soon as possible. Until the Effective Date occurs, the terms of the Plan, although confirmed, are not yet in effect. On the Effective Date, a channeling injunction ordered by the Bankruptcy Court pursuant to Section 524(g) of the Bankruptcy Code 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 shall be in exchange for and in complete satisfaction, discharge and release of all claims and equity interests against Raytech.

In 1991, an environmental claim was filed by the Pennsylvania Department of Environmental Resources ("DER") to perform certain activities in connection with Raymark's Pennsylvania manufacturing facility, including submission of an acceptable closure plan for a landfill containing hazardous waste products located at the facility. In March 1991, the Company entered a Consent Order which required Raymark to submit a revised closure plan acceptable to the DER. The estimated cost for Raymark to comply with the order was \$1.2 million. The DER notified the Company in 2000 that Raymark had failed to comply with its obligations under the Consent Order. In December 2000, Raymark sold its Pennsylvania manufacturing facility, and the buyer has entered a consent agreement with the DER to comply with the order, thereby satisfying the claim against Raytech.

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. IDEM has turned the matter over to the U.S. Environmental Protection Agency ("EPA"), and in April 2000, the EPA issued a subpoena for information to determine compliance with federal environmental regulations and in July 2000 proposed a consent order of environmental response that was rejected by RPC. 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 is preparing a plan for implementing and carrying out the cleanup Order. Based on preliminary assessments, the Company has estimated that the cost to comply with the Order will be in the range of \$3 million to \$6 million and has recorded a liability in the amount of \$3 million at December 31, 2000. It is at least reasonably possible that the preliminary assessment of estimated costs to comply with the Order may be modified as the project progresses. A receivable from Reliance Insurance Company will be recorded when the Company has determined that it is probable that such recovery will be realized.

In January 1997, Raytech was named through a subsidiary in a third party complaint captioned Martin Dembinski, et al. vs. Farrell

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Lines, Inc., et al. vs. American Stevedoring, Ltd., et al. filed in the U.S. District Court for the Southern District of New York for damages for asbestos-related disease. The case has been removed to the U.S. District Court, Eastern District of Pennsylvania. When

required, the Company will seek an injunction in the Bankruptcy Court to halt the litigation under the channeling injunction referenced above.

In December 1998, a subsidiary of the Company filed a complaint against a former administrative financial manager of Advanced Friction Materials Company ("AFM") in the U.S. District Court, Eastern District of Michigan, captioned Raytech Composites, Inc. vs. Richard Hartwick, et ux. alleging that he wrongfully converted Company monies in his control to his own use and benefit in an amount greater than \$3.3 million prior to the April 1998 completion of the acquisition of AFM as discussed in the following paragraph. In December 1999, the District Court ruled on summary judgment in favor of Raytech on its claim against Hartwick in the amount of \$3.330 million. A constructive trust had been ordered by the Court providing ownership to Raytech of four real estate properties purchased by Hartwick with the converted funds. The four properties have been sold resulting in a net recovery of \$1.337 million. Hartwick has been arrested by the State of Michigan under 13 counts of embezzlement. In May 2000, Hartwick pled guilty to the charges and has been sentenced for 2 to 15 years in the Michigan State Penitentiary. A restitution order was granted to the Company in the amount of \$1.33 million.

In April 1998, 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, an adversary proceeding was filed in the Connecticut Bankruptcy Court against the former owner captioned Raytech Corporation, et al. vs. Oscar E. Stefanutti, et al. to recover \$1.5 million of the amount paid for the AFM stock and to obtain a declaratory judgment that the balance of \$3.022 million is not owed based upon the judgment that a fraud was perpetrated upon the Company related to the Hartwick case referenced above. In September 1999, the Bankruptcy Court granted jurisdiction of the case but exercised discretionary abstention to enable the Court to focus on issues impeding the plan confirmation. 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. Discovery has been completed, and cross motions for summary judgment are being considered by the Court. A trial date has been set for April 2001.

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) 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 has enriched the Smith family by an estimated \$12 million and has greatly profited 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 Bankruptcy Court issued a temporary restraining order stopping Mr. Smith and all

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defendants from dissipating, conveying, encumbering or otherwise disposing of any assets, which order has been amended several times and remains in effect pending a preliminary injunction hearing. The reference to the Bankruptcy Court has been withdrawn, and the matter is now being litigated in the U.S. District Court in Connecticut. A motion for summary judgment was filed by the plaintiffs and was ruled upon in March 2000. The ruling granted plaintiffs summary judgment on several of the counts but denied summary judgment with respect to the claims against Mr. Smith for the stripping of assets from Raymark and its creditors for the reason that there was insufficient evidence of insolvency of Raymark, giving plaintiffs standing to file the claim. The Court invited plaintiffs to file for reconsideration of the denial with sufficient evidence of insolvency of Raymark at the time Mr. Smith expropriated the assets. Such motion for reconsideration was filed in April 2000 and remains pending.

The adverse ruling in the Third Circuit Court of Appeals, of which a petition for writ of certiorari was denied by the U.S. Supreme Court, precluding Raytech from relitigating the issue of its successor liability leaves the U.S. District Court's (Oregon) 1988 ruling as the prevailing decision holding Raytech to be a successor to Raymark's asbestos-related liabilities. This ruling has had a material adverse impact on Raytech as it did not have the resources needed to fund Raymark's potentially substantial uninsured asbestos-related and environmental liabilities. However, the Plan of Reorganization has defined the impact of the successor liabilities imposed by the referenced court decisions. While the Plan of Reorganization has been confirmed by the Bankruptcy Court and the U.S. District Court, it is not yet effective subject to certain conditions precedent, which timing cannot be predicted with certainty. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets and liquidation of liabilities in the normal course of business. The uncertainties regarding the reorganization proceedings raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability, revaluation and classification of recorded asset amounts or adjustments relating to settlement and classification of liabilities that may be required in connection with reorganizing under the Bankruptcy Code.

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

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York Stock Exchange under the trading symbol RAY. As of March 1, 2001, there were 1,596 holders of record of the Registrant's common stock.

Information regarding the quarterly high and low sales prices for 2000 and 1999 and information with respect to dividends is set forth in Note L of the Consolidated Financial Statements, Part II, Item 8 hereof.

Item 6. Selected Financial Data

FIVE-YEAR REVIEW OF OPERATIONS

(in thousands, except per share data)

	2000	1999	1998	1997	1996
Operating Results					
Net sales	\$ 239,532	\$251,966	\$247,464	\$234,475	\$217,683
Gross profit	59,489	60,238	58,650	51,575	54,269
Operating profit	27,215	27,518	26,007	26,164	23,603
Interest expense	2,218 (3)	2,279 (3)	2,158 (3)	3,345	3,132
Net (loss) income	(7,058,978) (4)	16,364	16,357	15,538 (2)	15,991 (5)
Share Data					
Basic (loss) earnings per share	\$ (2,015.40) (4)	\$ 4.76	\$ 4.81	\$ 4.76	\$ 4.95
Weighted average share	3,502,522	3,439,017	3,402,019	3,263,137	3,232,674
Diluted (loss) earnings per share	\$ (2,015.40) (4)	\$ 4.65	\$ 4.61	\$ 4.41	\$ 4.65
Adjusted weighted average shares	3,502,522	3,518,884	3,548,893	3,524,391	3,441,645
Balance sheet					
Total assets	\$ 320,316	\$188,686	\$172,034	\$153,385	\$140,155
Working capital	21,402	11,201	5,464	7,324	7,418
Long-term obligations	31,238	35,055	39,002	38,639	41,522
Liabilities subject to compromise (4)	7,211,433	-	-	-	-
Commitments and contingencies (1)					
Total shareholders' (deficit) equity	(6,979,138)	80,788	64,297	48,462	34,015
Property, plant and equipment					
Capital expenditures	\$ 13,399	\$ 23,203	\$ 19,754	\$ 20,603	\$ 8,390
Depreciation	11,545	10,569	9,477	8,746	8,039
Dividends declared per share	\$ -	\$ -	\$ -	\$ -	\$ -