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<SEC-DOCUMENT>0000797917-97-000013.txt : 19971107

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ACCESSION NUMBER: 0000797917-97-000013

CONFORMED SUBMISSION TYPE: 10-Q

PUBLIC DOCUMENT COUNT: 3

CONFORMED PERIOD OF REPORT: 19970928

FILED AS OF DATE: 19971106

SROS: NYSE

FILER:

COMPANY DATA:

COMPANY CONFORMED NAME:

RAYTECH CORP

CENTRAL INDEX KEY:

0000797917

STANDARD INDUSTRIAL CLASSIFICATION:

MISCELLANEOUS FABRICATED M

IRS NUMBER:

061182033

STATE OF INCORPORATION:

DE

FISCAL YEAR END:

1231

FILING VALUES:

FORM TYPE: 10-Q

SEC ACT:

SEC FILE NUMBER: 001-09298

FILM NUMBER: 97708983

BUSINESS ADDRESS:

STREET 1: ONE CORPORATE DR STE 512

CITY: SHELTON

STATE: CT

ZIP: 06484

BUSINESS PHONE: 2039258023

</SEC-HEADER>

<DOCUMENT>

<TYPE>10-Q

<SEQUENCE>1

<TEXT>

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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

For the Quarter ended

September 28, 1997

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 512, One Corporate Drive
Shelton, Connecticut
(Address of principal executive offices)06484
(Zip Code)

203-925-8023

(Registrant's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No

As of September 28, 1997, 3,277,924 shares of the Registrant's common stock, par value \$1.00, were issued and outstanding.

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RAYTECH CORPORATION

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RAYTECH CORPORATION
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CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except share data) (Unaudited)
<CAPTION>

As at	September 28,	Dec.
<S>	1997	199
	<C>	<C>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 5,616	\$ 11,
Trade accounts receivable, less allowance of \$676 for 1997 and \$726 for 1996	27,432	23,
Inventories	28,806	28,
Other current assets	8,591	8,
Total current assets	70,445	72,
Property, plant and equipment	138,603	127,
Less accumulated depreciation	80,893	76,
Net property, plant and equipment	57,710	51,
Investment in securities	2,100	2,
Investment in and advances to affiliates	10,336	9,
Other assets	5,032	4,
Total assets	\$145,623	\$140,
LIABILITIES		
Current liabilities		
Notes payable	\$ 14,170	\$ 10,
Current portion of long-term debt - Raymark	14,046	12,
Current portion of long-term debt	138	
Accounts payable	13,987	18,
Accrued liabilities	19,089	22,
Total current liabilities	61,430	64,

Long-term debt due to Raymark	22,287	27,
Long-term debt	660	
Postretirement benefits other than pensions	10,265	9,
Other long-term liabilities	5,200	4,
Total liabilities	99,842	106,

SHAREHOLDERS' EQUITY

Capital stock

Cumulative preference stock, no par value		
800,000 shares authorized, none issued & outstanding		
Common stock, par value \$1.00		
7,500,000 shares authorized, 5,409,983 and 5,371,821		
issued and outstanding in fiscal 1997 and 1996, respectively	5,410	5,
Additional paid in capital	70,267	70,
Accumulated deficit	(25,787)	(38,
Cumulative translation adjustment	452	1,
	50,342	38,
Less treasury shares at cost	(4,561)	(4,
Total shareholders' equity	45,781	34,
Total liabilities and shareholders' equity	\$145,623	\$140,

<FN>

The accompanying notes are an integral part of these statements.

</TABLE>

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RAYTECH CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(000's omitted, except share data)
(Unaudited)

<TABLE>

<CAPTION>

	For the 13 Weeks Ended		For the 39 Weeks	
	Sept. 28,	Sept. 29,	Sept. 28,	Sep
	1997	1996	1997	1
<S>	<C>	<C>	<C>	<C>
Net Sales	\$ 56,251	\$ 53,660	\$ 176,132	\$ 165
Cost of sales	(44,469)	(40,861)	(136,739)	(124
Gross profit	11,782	12,799	39,393	41
Selling and administrative expenses	(5,395)	(7,273)	(18,364)	(20
Operating profit	6,387	5,526	21,029	20
Interest expense	(338)	(3)	(983)	
Interest expense - Raymark	(563)	(412)	(1,594)	(1
Other income (expense), net	86	85	1,007	
Income before provision for income taxes and minority interest	5,572	5,196	19,459	19
Provision for income tax	(1,677)	(217)	(5,812)	(5
Minority interest	(185)	(225)	(512)	
Net income	\$ 3,710	\$ 4,754	\$ 13,135	\$ 13

Net income per share	\$ 1.05	\$ 1.38	\$ 3.73	\$
Average shares outstanding	3,538,981	3,455,044	3,521,487	3,450

<FN>

The accompanying notes are an integral part of these statements.

</TABLE>

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RAYTECH CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

<TABLE>

<CAPTION>

For the 39 Weeks Ended	September 28, 1997	September 29, 1996
<S>	<C>	<C>
Net cash provided by operating activities	\$ 15,735	\$ 10,265
Cash flow from investing activities:		
Capital expenditures	(14,754)	(5,403)
Proceeds on sale of property, plant and equipment	125	119
Note receivable due from AFM	101	-
Equity Investment in AFM	-	(9,400)
Payments to AFM for machinery and equipment	-	(3,500)
Net cash used in investing activities	(21,604)	(18,184)
Cash flow from financing activities:		
Net (payments) proceeds from short-term borrowings	(373)	3,218
Net borrowing (payments) under revolving line of credit	4,078	(2,385)
Principal payments on long-term debt	(126)	(117)
Proceeds from long-term borrowings	462	-
Principal payments on borrowings from Raymark	(3,905)	-
Payments to AFM for land and building	(7,076)	-
Other	97	(128)
Net cash provided by financing activities	233	588
Effect of exchange rate changes on cash	(89)	(26)
Net change in cash and cash equivalents	(5,725)	(7,357)
Cash and cash equivalents at beginning of period	11,341	19,597
Cash and cash equivalents at end of period	\$ 5,616	\$ 12,240

<FN>

The accompanying notes are an integral part of these statements.

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RAYTECH CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except share data)
(Unaudited)

NOTE: For purposes of the notes and Item 2, Raytech Corporation and its subsidiaries are referenced on a consolidated basis as "Raytech" or the "Company" where appropriate.

NOTE A - RESTRUCTURING OF RAYTECH, CHAPTER 11 PROCEEDINGS
AND OTHER LITIGATION

The restructuring of the Company in October 1986 was for the stated purpose of separating Raytech from Raymark Industries, Inc.'s ("Raymark") substantial asbestos-related liabilities and litigation. For a further discussion of this matter, please refer to Raytech's 1996 Form 10-K, Part 1, Item 1, pages 4-7, 13-19. As part of the restructuring process of Raytech, Raymark common stock was divested and sold in May, 1988 to Asbestos Litigation Management, Inc.

Despite the restructuring plan implementation and subsequent divestiture of Raymark, Raytech was named a co-defendant with Raymark and other named defendants in approximately 3,300 asbestos-related lawsuits as a successor in liability to Raymark. The dollar value of these lawsuits cannot be estimated. Until February 1989, the defense of all such lawsuits was provided to Raytech by Raymark in accordance with the indemnification agreement included as a condition of the purchase of the Wet Clutch and Brake Division and German subsidiary from Raymark in 1987. In February 1989, an involuntary petition in bankruptcy was filed against Raymark, and subsequently, a restrictive funding order was issued by an Illinois Circuit Court, which required one of Raymark's insurance carriers to pay claims but not defense costs, and another insurance carrier had been declared insolvent. These circumstances caused Raymark to be unable to fund the costs of defense to Raytech in the asbestos-related lawsuits referenced above, as provided in the indemnity section of the acquisition agreement. Raytech management was informed that Raymark's cost of defense and disposition of cases up to the automatic stay of litigation under the involuntary bankruptcy proceedings was approximately \$333 million of Raymark's total insurance coverage of approximately \$395 million. Raytech management has also been informed that as a result of the dismissal of the involuntary petition, Raymark has encountered pending and newly filed asbestos-related lawsuits but has received \$27 million from a state guarantee association to make up the insurance policies of the insolvent carrier and \$32 million in other policies to defend against such litigation.

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In an asbestos-related personal injury case 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 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 costs of defense recited above, and in order to obtain a ruling binding across all jurisdictions as to whether Raytech is liable as a successor for asbestos-related and other claims, including claims yet to be filed relating to the operations of

Raymark or its predecessors, on March 10, 1989, Raytech filed a petition seeking relief under Chapter 11 of Title 11, United States Code in the United States Bankruptcy Court, District of Connecticut. Under Chapter 11, substantially all litigation against Raytech has been 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. 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 for a limited time relating to a determination of equity security holders' interest in the estate.

Since the bankruptcy filing several entities have asserted claims in Bankruptcy Court alleging environmental liabilities of Raymark based upon similar theories of successor liability against Raytech as alleged by asbestos claimants. These claims are not covered by the class action referenced below and will be resolved in the bankruptcy case. The environmental claims include a claim of the Pennsylvania Department of Environmental Resources ("DER") to perform certain activities in connection with Raymark's Pennsylvania manufacturing facility, which includes submission of an acceptable closure plan for a landfill containing hazardous waste products located at the facility and removal of accumulated baghouse dust from its operations. In March 1991, the Company entered a Consent Order which required Raymark to submit a revised closure plan which provides for the management and removal of hazardous waste, for investigating treatment and monitoring of any contaminated groundwater and for the protection of human health and environment at the site, all relating to the closure of the Pennsylvania landfill and to pay a nominal civil penalty. The estimated cost for Raymark to comply with the order is \$1.2 million. The DER has reserved its right to reinstitute an action

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against the Company and the other parties to the DER order in the event Raymark fails to comply with its obligations under the Consent Order. Another environmental claim was filed against the Company by the U.S. Environmental Protection Agency for civil penalties charged Raymark in the amount of \$12 million arising out of alleged Resource Conservation and Recovery Act violations at Raymark's Stratford, Connecticut, manufacturing facility.

It is possible that additional claims for reimbursement of environmental cleanup costs related to Raymark facilities may be asserted against Raytech, as successor in liability to Raymark. In January 1997, the U.S. Environmental Protection Agency ("EPA") and the State of Connecticut filed suit against Raymark claiming \$212 million in damages for cleanup of three superfund sites including the Stratford, Connecticut, site and also filed a bankruptcy claim in the same amount against Raytech as a successor to Raymark for such cleanup. In February, 1997 the said claims against Raytech were amended raising the damages in excess of \$300 million. Determination of Raytech's liability for such claims, if any, is subject to Bankruptcy Court proceedings.

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 small waterways near its Indiana facility. In June, 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. RPC continues to assess the extent of the contamination and its involvement and is currently negotiating with IDEM for an agreed order of cleanup. The Company intends to offset its investigation and cleanup costs against its notes payable to Raymark when such costs become known pursuant to the indemnification clause in the wet clutch and brake acquisition agreement since it appears that any contamination would have occurred during Raymark's ownership of the Indiana facility. Blood tests administered to residents in the vicinity of the small waterways revealed no exposure.

As a result of an inspection, the Company has been notified that the operations purchased from AFM in January 1996 in Sterling Heights, Michigan, are in violation of a consent order issued by the Michigan Department of Environmental Quality ("DEQ"). The consent order included a compliance program providing for measures to be taken to bring certain operations into compliance and recordkeeping on operations in compliance. Potential fines for the violations were as high as \$4.6 million; however, negotiations with the DEQ have been in progress concerning the compliance program and fines for past violations, <PAGE>

resulting in a tentative agreement providing for a consent judgment with a fine of \$181 and subject to completion of certain operational compliance programs. Finalization of the consent judgment is pending. The Company has accrued its estimate of the probable cost of resolution of this matter.

Under bankruptcy rules, the debtor-in-possession has an exclusive period in which to file a reorganization plan. Such exclusive period had been extended by the Bankruptcy Court pending the conclusion of the successor liability litigation. However, in December 1992, the creditors' committee filed a motion to terminate the exclusive period to file a plan of reorganization. At a hearing in May 1993, the motion was denied by the Bankruptcy Court but was appealed by the creditors' committee. In November 1993, the U.S. District Court reversed the Bankruptcy Court and terminated the exclusive period to file a plan of reorganization effective in January 1994. Accordingly, any party in interest, including the debtor, the creditors' committee, or a creditor could thereafter file a plan of reorganization.

In May 1994, Raytech filed a Plan of Reorganization ("Debtor's Plan") in the U.S. Bankruptcy Court for the purpose of seeking confirmation allowing Raytech to emerge from the bankruptcy filed March 10, 1989. Important conditions precedent to confirmation of the Debtor's Plan include a final judgment in the litigation to determine whether Raytech is a successor to the liabilities of Raymark and a resolution of the environmental claims or other claims filed or to be filed by governmental agencies. The Debtor's Plan provides that in the event Raytech is found to be a successor, it is to establish a successor trust funded by an amount determined to be the difference between what Raytech should have paid for the businesses purchased from Raymark less the amount actually paid and less amounts to be paid for environmental and other claims. This remedy would satisfy its obligations as a successor in full and render all claimants unimpaired, thereby eliminating the need for balloting and all equity shareholders would retain their interests in full. Raytech's management believes the Debtor's Plan to be confirmable. In September 1994, the Creditors' Committee filed its own Plan of Reorganization in competition to the Debtor's Plan ("Creditors'

Plan"). The Creditors' Plan calls for the elimination of Raytech Corporation and its stockholders to be replaced with a new Raytech. All of the stock of new Raytech would then be distributed to unsecured claimants, environmental claimants and both past and future asbestos disease claimants on a formulated basis set forth in the Plan. Current stockholders of Raytech would receive nothing under the Plan. Raytech believes the Creditors' Plan is unconfirmable and will vigorously contest attempts to have it confirmed while it continues to try to get the Debtor's Plan confirmed. Upon motion of the parties and support of the Bankruptcy Court, the major interested parties agreed in August 1995 to participate in non-binding mediation to attempt to

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effectuate a consensual plan of reorganization. The mediation process commenced in October 1995 and was concluded in March 1996 without agreement for a consensual plan of reorganization. The competing plans of Raytech and its creditors have returned to Bankruptcy Court procedures. The outcome of these matters is expected to take considerable time and is uncertain. If an adverse plan is confirmed, it would have a material adverse impact on Raytech and its stockholders.

In November 1996, Raytech filed an adversary proceeding complaint against the creditors' committee, et al., seeking a declaratory judgment of the Bankruptcy Court that Raytech's liability to present and future creditors of Raymark under the theory of successor liability is limited pursuant to bankruptcy law. The creditors' committee filed a motion for a summary judgment, which was granted by the Bankruptcy Court at a hearing in August 1997. Raytech considers the grant of the summary judgment dismissing the proceeding as unfounded in fact and law and intends to exhaust its legal remedies through appeal of the order.

Other matters in the Bankruptcy Court include: (1) In April 1996, the creditors' committee filed a motion for appointment of a trustee based upon alleged breaches of the Company's fiduciary obligations to its creditors. The Company will resist the motion when heard; however, the motion has been continued without a further hearing date set. (2) In September 1996, Raytech filed a motion to dismiss its bankruptcy petition for the reason that Raymark appears to again be capable of providing indemnity to claims pending and that may be filed against Raytech. The said motion to dismiss has been continued by the Court without a further hearing date set. (3) The process for confirmation of a reorganization plan was begun in November 1996 with arguments being presented for a bar date and claim forms. The process was continued pending the completion of other matters before the Bankruptcy Court and now has resumed. (4) In January 1997, the creditors' committee filed a motion for leave to file an adverse proceeding complaint against Raymark, et al. seeking to have the Raytech Bankruptcy Court assert control over Raymark and its assets on the grounds that the reorganization of Raytech in 1986 and the corporate transfers to Raymark in 1988 were fraudulent. The Bankruptcy Court allowed the complaint to be filed and served but continued any further activity. (5) In March 1997, the creditors' committee filed a motion for relief from the automatic stay to permit the commencement of an adversary proceeding against Raytech to litigate alternative theories of liability bearing upon the extent to which Raytech may be liable to Raymark's creditors. The motion was continued without a further hearing date set.

In June 1989 Raytech filed a class action in the

Bankruptcy Court against all present and future asbestos claimants
<PAGE>

seeking a declaratory judgment that it not be held liable for the asbestos-related liabilities of Raymark. It was the desire of Raytech to have this case heard in the U.S. District Court, and since the authority of the Bankruptcy Court is referred from the U.S. District Court, upon its motion and argument the U.S. District Court withdrew its reference of the case to the Bankruptcy Court and thereby agreed to hear and decide the case. In September 1991, the U.S. District Court issued a ruling dismissing one count of the class action citing as a reason the preclusive effect of the 1988 Oregon case, previously discussed, 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. The remaining counts before the U.S. District Court involve the transfer of Raymark's asbestos-related liabilities to Raytech on the legal theories of alter-ego and fraudulent conveyance. 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 December 1992, Raytech filed a motion to activate the case and to obtain rulings on the remaining counts which was denied by the U.S. District Court. In October 1993, the creditors' committee asked the Court to certify the previous dismissal of the successor liability count. In February 1994, the U.S. District Court granted the motion to certify and the successor liability dismissal was accordingly 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.

Costs incurred by the Company for asbestos-related liabilities are indemnified by Raymark under the 1987 acquisition agreements. By agreement, 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 177,570 shares in 1990, 163,303 shares 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 in 1994, 1995, 1996 and 1997 were applied as a reduction of the note obligations pursuant to the agreements.

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In January 1997, Raytech was named through a subsidiary in a third party complaint captioned Martin Dembinski, et al. vs. Farrell 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 and remains pending. When required, the Company will deny the allegations and will vigorously defend itself against the claims made. Discovery procedures have not yet begun.

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 could have a material adverse impact on Raytech as it does not have the resources needed to fund Raymark's potentially substantial uninsured asbestos-related and environmental liabilities. Determination of Raytech's actual liabilities are subject to the Bankruptcy Court's deliberations and rulings and the competing plans of reorganization filed in the Bankruptcy Court referenced above.

The ultimate liability of the Company with respect to asbestos-related, environmental, or other claims cannot presently be determined. Accordingly, no provision for such liability has been recorded in the financial statements. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. An unfavorable result on certain or all of the matters described above would have a material adverse effect on the Company's results of operations, financial position and cash flows. These uncertainties 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 and classification of recorded asset amounts or adjustments relating to establishment, settlement and classification of liabilities that may be required in connection with reorganizing under the Bankruptcy Code.

NOTE B - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments necessary to fairly present the financial position of Raytech as of September 28, 1997 and December 29, 1996, the results of operations for the thirteen weeks and the thirty-nine weeks ended September 28, 1997 and statements of cash flows for the thirty-nine weeks ended September 28, 1997. Except for the matters

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disclosed herein, all adjustments are of a normal recurring nature. The financial statements contained herein should be read in conjunction with the financial statements and related notes filed on Form 10-K for the year-ended December 29, 1996.

The year-end condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles.

NOTE C - INVENTORIES

Net, inventories consist of the following:

	Sept. 28, 1997	December 29, 1996
Raw material	\$10,903	\$ 9,921
Work in process	7,765	8,033
Finished goods	10,138	10,755
	\$28,806	\$28,709

NOTE D - RELATED PARTIES

During the thirty-nine months ended September 28, 1997, the Company purchased yarn from Universal Friction Composites, a related party, in the amount of \$3,001 and at September 28, 1997, the related payable amounted to \$98.

In March 1997, Allomatic Products Company ("APC"), a majority-owned subsidiary, declared a cash dividend of \$2.81 per share payable in equal quarterly installments to shareholders of record on March 31, 1997. At the record date, Craig R. Smith beneficially owned 3,000 shares and was a related party to owners of 38,904 shares, or 40% of the outstanding shares.

Earnings attributable to minority shareholders of Allomatic Products Company have been presented net of income tax as minority interest in the Condensed Consolidated Statement of Operations.

In September 1996, Craig R. Smith entered into a consulting agreement with Raymark for services regarding asbestos litigation. Fees due Raytech in 1997 pursuant to the terms of the agreement are \$34.

NOTE E - ACCRUED LIABILITIES

In the thirty-nine week period ended September 28, 1997, the Company reversed \$1.8 million (\$1.0 million in the thirteen-week period ended September 28, 1997) of accruals established in 1996 to reflect management's revised estimate of probable liability for environmental violations at the Sterling Heights facility.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Summary

Net income for the thirteen-week period ended September 28, 1997 amounted to \$3,710 or \$1.05 per share as compared with \$4,754 or \$1.38 per share for the corresponding period in 1996. For the thirty-nine week period, net income amounted to \$13,135 or \$3.73 per share compared with net income of \$13,037 or \$3.78 per share for the same period in 1996. The overall improvement is the result of increased sales in the domestic market segments and a reversal of environmental accruals no longer required, partially offset by lower margins due to competitive pricing pressures. Local currency increases in sales and profitability of European operations have been more than offset by adverse foreign currency fluctuations.

Net Sales

Net sales for the thirteen-week period ended September 28, 1997 increased 4.8% to \$56,251 as compared with \$53,660 for the same period one year ago. Net sales for the thirty-nine week period ended September 28, 1997 increased 6.2% to \$176,132 as compared with \$165,839 for the same period one year ago. The overall thirty-nine week improvement is primarily due to additional sales of approximately \$3,781 related to the Sterling Heights operations and additional volume within the domestic automotive, agriculture and construction product market segments.

Excluding Sterling Heights, domestic sales increased by \$9,413 compared to last year. However, European sales decreased by \$2,901 primarily due to foreign currency fluctuation.

Gross Margin

Gross profit margin as a percentage of sales for the thirteen-week period ended September 28, 1997 is 20.9%, as compared to 23.9% for the same period one year ago. For the thirty-nine week period ended September 28, 1997 gross profit margin as a percentage of sales is 22.4% as compared to 25.0% for the same period one year ago. The overall decrease is primarily due to an increase in domestic manufacturing labor and material costs, equipment maintenance, contractual price reductions to certain customers and a lower gross margin on domestic agriculture and foreign automotive sales.

Selling, General and Administrative Expense

Selling, general and administrative expenses decreased to \$18,364 as compared to \$20,955 one year earlier. The decrease is primarily due to the net reversal of \$1,800 of accruals established in 1996 related to environmental violations at the

<PAGE>

Sterling Heights facility. In addition, 1997 provisions for discretionary compensation are lower than 1996 due to reduced earnings forecasts at certain operations.

Income Taxes

The effective tax rates for the thirty-nine weeks ended September 28, 1997 and September 29, 1996 were 29.9% and 27.6%, respectively. Included in the effective tax rate for 1997 is the effect of reversing certain valuation allowances in the amount of \$1,500 related to net operating loss carryforwards of the German operations. Included in the effective tax rate for 1996 were adjustments to prior years' accruals in the amount of \$1,300 for tax items, which were favorably resolved.

Liquidity and Capital Resources

During the thirty-nine weeks ended September 28, 1997, the Company generated positive cash flow from operating activities in the amount of \$15.7 million. The positive cash flow is the result of the favorable earnings during the nine months ended September 28, 1997. Capital expenditures year-to-date for fiscal 1997 amounted to \$14.9 million, which is consistent with the Company's projected spending plan for 1997.

On January 31, 1997, Raybestos Products Company completed the purchase of AFM Management Company for \$1.0 million from Advanced Friction Materials Company.

On January 6, 1997, Raybestos Products Company ("RPC") completed the purchase of land and building from Advanced Friction Materials Company for \$6.6 million.

On April 30, 1997, Raytech Powertrain, Inc., a wholly-owned subsidiary, purchased the land and building in Crawfordsville, Indiana, previously leased by Raybestos Aftermarket Products Company ("RAPCO").

At September 28, 1997, the Company's wholly-owned German subsidiaries had available unused lines of credit amounting to

DM3,593 (\$2,042) which all expire on demand.

In March 1995, Raybestos Products Company ("RPC"), a wholly-owned subsidiary of the Company, entered into a loan agreement with The CIT Group/Credit Finance, Inc., which provides for RPC to borrow up to \$15 million, consisting of a revolving line of credit of \$10 million and a term loan of \$5 million at an interest rate of 1.75% above the prime rate. The loans are collateralized by accounts receivable, inventory and machinery and equipment at RPC. The purpose of the loan is for working capital,

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capital expenditures, acquisitions and possible settlement of successor liability issues. The amount outstanding under this loan at September 28, 1997 was \$12,796.

Management believes that the Company will generate sufficient cash flow from operations during the balance of 1997 to meet all of the Company's obligations arising in the ordinary course of operations.

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PART II. OTHER INFORMATION

ITEM 1. 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 would not be subject to any asbestos-related or other liabilities of Raymark.

Prior to the formation of Raytech, Raymark was first sued in an asbestos-related claim in 1971 and has since been named as a defendant in more than 88,000 lawsuits in which substantial damages have been sought for injury or death from exposure to airborne asbestos fibers. More than 35,000 of such lawsuits were disposed of by settlements, dismissals, summary judgments and trial verdicts at a cost in excess of \$333 million principally covered by Raymark's insurance. Subsequent to the sale 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.

Despite the restructuring plan implementation and subsequent divestiture of Raymark, Raytech was named a co-defendant with Raymark and other named defendants in approximately 3,300 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 agreement included as a condition of the purchase of the Wet Clutch and Brake Division and German subsidiary from Raymark in 1987. However, subsequent to the involuntary bankruptcy proceedings against Raymark, a restrictive funding order was issued by an Illinois Circuit Court which required one of Raymark's insurance carriers to pay claims but not defense costs and another insurance carrier has been declared insolvent. These circumstances caused Raymark to be unable to fund the costs of defense to Raytech under its indemnification agreement. Raytech management was informed that Raymark's cost of defense and disposition of cases up to the automatic stay of litigation 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 has encountered pending and newly filed asbestos-related lawsuits but has received \$27 million from a state guarantee association to make up the insurance policies of the insolvent carrier and \$32 million in other policies to defend against such litigation.

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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. In this case the liability was negotiated to settlement for a negligible amount. The successor decision was appealed 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 in order to obtain a ruling binding across all jurisdictions on whether Raytech is liable as a successor for asbestos-related and other claims including claims yet to be filed relating to the operations of Raymark or Raymark's predecessors, on March 10, 1989 Raytech filed a petition seeking relief under Chapter 11 of Title 11, United States Code in the United States Bankruptcy Court, District of Connecticut. Under Chapter 11, substantially all litigation against Raytech has been 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 for a limited time relating to a determination of equity security holders' interest in the estate.

Since the bankruptcy filing, several entities have asserted claims in Bankruptcy Court alleging environmental liabilities of Raymark based upon similar theories of successor liability against Raytech as alleged by asbestos claimants. These claims are not covered by the class action referenced below and will be resolved in the bankruptcy case. The environmental claims include a claim of the Pennsylvania Department of Environmental Resources ("DER") to perform certain activities in connection with Raymark's Pennsylvania manufacturing facility, which includes submission of an acceptable closure plan for a landfill containing hazardous waste products located at the facility and removal of accumulated baghouse dust from its operations. In March 1991, the Company entered a Consent Order which required Raymark to submit a revised closure plan which provides for the management and removal of hazardous waste, for investigating, treatment and monitoring of any contaminated groundwater and for the protection of human health and environment at the site, all relating to the closure of the Pennsylvania landfill and to pay a nominal civil penalty. The estimated cost for Raymark to comply with the order is \$1.2

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million. The DER has reserved its right to reinstitute an action

against the Company and the other parties to the DER order in the event Raymark fails to comply with its obligations under the Consent Order. Another environmental claim was filed against the Company by the U.S. Environmental Protection Agency for civil penalties charged Raymark in the amount of \$12 million arising out of alleged Resource Conservation and Recovery Act violations at Raymark's Stratford, Connecticut, manufacturing facility.

It is possible that additional claims for reimbursement of environmental cleanup costs related to Raymark facilities may be asserted against Raytech, as successor in liability to Raymark. In January 1997, the U.S. Environmental Protection Agency ("EPA") and the State of Connecticut filed suit against Raymark claiming \$212 million in damages for cleanup of three superfund sites including the Stratford, Connecticut, site also filed a bankruptcy claim in the same amount against Raytech as a successor to Raymark for such cleanup. In February, 1997 the said claims against Raytech were amended raising the damages in excess of \$300 million. Determination of Raytech's liability for such claims, if any, is subject to Bankruptcy Court proceedings.

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 small waterways near its Indiana facility. In June, 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. RPC continues to assess the extent of the contamination and its involvement and is currently negotiating with IDEM for an agreed order of cleanup. The Company intends to offset its investigation and cleanup costs against its notes payable to Raymark when such costs become known pursuant to the indemnification clause in the wet clutch and brake acquisition agreement since it appears that any contamination would have occurred during Raymark's ownership of the Indiana facility. Blood tests administered to residents in the vicinity of the small waterways revealed no exposure.

As a result of an inspection, the Company has been notified that the operations purchased from AFM in January 1996 in Sterling Heights, Michigan, are in violation of a consent order issued by the Michigan Department of Environmental Quality ("DEQ"). The consent order included a compliance program providing for measures to be taken to bring certain operations into compliance and recordkeeping on operations in compliance. Potential fines for the violations were as high as \$4.6 million; however, negotiations with the DEQ have been in progress concerning the compliance

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program and fines for past violations resulting in a tentative agreement providing for a consent judgment with a fine of \$181 and subject to completion of certain operational compliance programs. Finalization of the consent judgment is pending.

Under bankruptcy rules, the debtor-in-possession has an exclusive period in which to file a reorganization plan. Such exclusive period had been extended by the Bankruptcy Court pending the conclusion of the successor liability litigation. However, in December 1992, the creditors' committee filed a motion to terminate the exclusive period to file a plan of reorganization. At a hearing in May 1993, the motion was denied by the Bankruptcy

Court but was appealed by the creditors' committee. In November 1993, the U.S. District Court reversed the Bankruptcy Court and terminated the exclusive period to file a plan of reorganization effective in January 1994. Accordingly, any party in interest, including the debtor, the creditors' committee or a creditor could thereafter file a plan of reorganization.

In May 1994, Raytech filed a Plan of Reorganization ("Debtor's Plan") in the U.S. Bankruptcy Court for the purpose of seeking confirmation allowing Raytech to emerge from the bankruptcy filed March 10, 1989. Important conditions precedent to confirmation of the Debtor's Plan include a final judgment in the litigation to determine whether Raytech is a successor to the liabilities of Raymark and a resolution of the environmental claims or other claims filed or to be filed by governmental agencies. The Debtor's Plan provides that in the event Raytech is found to be a successor, it is to establish a successor trust funded by an amount determined to be the difference between what Raytech should have paid for the businesses purchased from Raymark less the amount actually paid and less amounts to be paid for environmental and other claims. This remedy would satisfy its obligations as a successor in full and render all claimants unimpaired, thereby eliminating the need for balloting and all equity shareholders would retain their interests in full. Raytech believes the Debtor's Plan to be confirmable. In September 1994, the Creditors' Committee filed its own Plan of Reorganization in competition to the Debtor's Plan ("Creditors' Plan"). The Creditors' Plan calls for the elimination of Raytech Corporation and its stockholders to be replaced with a new Raytech. All of the stock of new Raytech would then be distributed to unsecured claimants, environmental claimants and both past and future asbestos disease claimants on a formulated basis set forth in the Plan. Current stockholders of Raytech would receive nothing under the Plan. Raytech believes the Creditors' Plan is unconfirmable and will vigorously contest attempts to have it confirmed while it continues to try to get the Debtor's Plan confirmed. Upon motion of the parties and support of the Bankruptcy Court, the major interested parties agreed in August 1995 to participate in non-binding mediation to attempt to effectuate a consensual plan of reorganization. The mediation process commenced in October 1995

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and was concluded in March 1996 without agreement for a consensual plan of reorganization. The competing plans of Raytech and its creditors have returned to Bankruptcy Court procedures. The outcome of these matters is expected to take considerable time and is uncertain. If an adverse plan is confirmed, it would have a material adverse impact on Raytech and its stockholders.

In November 1996, Raytech filed an adversary proceeding complaint against the creditors' committee, et al., seeking a declaratory judgment of the Bankruptcy Court that Raytech's liability to present and future creditors of Raymark under the theory of successor liability is limited pursuant to bankruptcy law. The creditors' committee filed a motion for a summary judgment, which was granted by the Bankruptcy Court at a hearing in August 1997. Raytech considers the grant of the summary judgment dismissing the proceeding as unfounded in fact and law and intends to exhaust its legal remedies through appeal of the order when received.

Other matters in the Bankruptcy Court include: (1) In April 1996, the creditors' committee filed a motion for appointment of a trustee based upon alleged breaches of the Company's fiduciary obligations to its creditors. The Company will resist the motion

when heard; however, the motion has been continued without a further hearing date set. (2) In September, Raytech filed a motion to dismiss its bankruptcy petition for the reason that Raymark appears to again be capable of providing indemnity to claims pending and that may be filed against Raytech. The said motion to dismiss has been continued by the Court without a further hearing date set. (3) The process for confirmation of a reorganization plan was begun in November 1996 with arguments being presented for a bar date and claim forms. The process was continued pending the completion of other matters before the Bankruptcy Court and now has resumed. (4) In January 1997, the creditors' committee filed a motion for leave to file an adverse proceeding complaint against Raymark, et al. seeking to have the Raytech Bankruptcy Court assert control over Raymark and its assets on the grounds that the reorganization of Raytech in 1986 and the corporate transfers to Raymark in 1988 were fraudulent. The Bankruptcy Court allowed the complaint to be filed and served but continued any further activity. (5) In March 1997, the creditors' committee filed a motion for relief from the automatic stay to permit the commencement of an adversary proceeding against Raytech to litigate alternative theories of liability bearing upon the extent to which Raytech may be liable to Raymark's creditors. The motion was continued without a further hearing date set.

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 for the asbestos-related liabilities of Raymark. It was the desire of Raytech to have this case heard in
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the U.S. District Court, and since the authority of the Bankruptcy Court is referred from the U.S. District Court, upon its motion and argument the U.S. District Court withdrew its reference of the case to the Bankruptcy Court and thereby agreed to hear and decide the case. In September 1991, the U.S. District Court issued a ruling dismissing one count of 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. The remaining counts before the U.S. District Court involve the transfer of Raymark's asbestos-related liabilities to Raytech on the legal theories of alter-ego and fraudulent conveyance. 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 December 1992, Raytech filed a motion to activate the case and to obtain rulings on the remaining counts, which was denied by the U.S. District Court. In October 1993, the creditors' committee asked the Court to certify the previous dismissal of the successor liability count. In February 1994, the U.S. District Court granted the motion to certify, and the successor liability dismissal was accordingly 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.

Costs incurred by the Company for asbestos related liabilities are indemnified by Raymark under the 1987 acquisition agreements. By agreement, 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 in 1994, 1995, 1996 and 1997 were applied as a reduction of the note obligations pursuant to the agreements.

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

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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 deny the allegations and will vigorously defend itself against the claims made. Discovery procedures have not yet begun.

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 could have a material adverse impact on Raytech as it does not have the resources needed to fund Raymark's potentially substantial uninsured asbestos-related and environmental liabilities. Determination of Raytech's actual liabilities are subject to the Bankruptcy Court's deliberations and rulings and the competing plans of reorganization filed in the Bankruptcy Court referenced above.

The ultimate liability of the Company with respect to asbestos-related, environmental, or other claims cannot presently be determined. Accordingly, no provision for such liability has been recorded in the financial statements. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. An unfavorable result on certain or all of the matters described above would have a material adverse effect on the Company's results of operations, financial position and cash flows. These uncertainties 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 and classification of recorded asset amounts or adjustments relating to establishment, settlement and classification of liabilities that may be required in connection with reorganizing under the Bankruptcy Code.

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ITEM 6(a). EXHIBITS

(11) Statement re. Computation of Per Share Earnings

ITEM 6(b). REPORTS ON 8-K

In Form 8-K dated August 14, 1997, it was reported that the Registrant received a ruling of the United States Bankruptcy Court, District of Connecticut, in the Adversary Proceeding No. 96-5181 filed in the Registrant's bankruptcy proceedings, granting a motion for summary judgment filed by the official committee of unsecured creditors. The Adversary Proceeding was filed by the Registrant in November 1996 seeking a declaratory judgment that its liability for asbestos-related and other liabilities is limited as a successor to Raymark Industries, Inc. To support the summary judgment, the Court relied upon *Schmoll v. ACands, Inc.*, 703 F. Supp. 868 (D.Or. 1988) which held the Registrant to be a successor to the Raymark liabilities. The Court's ruling was stated from the bench and is subject to a written order to be issued at a later date.

The report further indicated that the Registrant considers the grant of the summary judgment dismissing the proceeding as unfounded in fact and law and intends to exhaust its legal remedies through appeal of the order when received.

It was further stated that the outcome of these matters continues to be uncertain but should the Registrant ultimately be liable for Raymark's asbestos-related and other liabilities, there would be a material adverse impact on the Registrant, as it does not have the resources needed to fund such liabilities.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

RAYTECH CORPORATION

By: /s/ALBERT A. CANOSA
Albert A. Canosa
Vice President of
Administration, Treasurer
and Chief Financial Officer

Date: November 6, 1997

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Raytech Corporation and Subsidiaries

PART II
EXHIBIT (11)

SCHEDULE OF COMPUTATION OF NET INCOME PER SHARE
(in thousands, except per share data)

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	For the 13 Weeks Ended		For the 39 Weeks	
	Sept. 28, 1997	Sept. 29, 1996	Sept. 28, 1997	Sept 19
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Net income as reported	\$ 3,710	\$ 4,754	\$ 13,135	\$ 13
Primary				
Common shares outstanding at beginning of year	3,239,762	3,230,080	3,239,762	3,230
Weighted average of stock options exercised	25,582	2,000	16,746	1
Common equivalent shares for assumed exercise of employee stock options	273,637	222,964	264,979	219
Weighted average number of shares used in calculation of primary income per share	3,538,981	3,455,044	3,521,487	3,450
Primary income per common share	\$1.05	\$1.38	\$3.73	\$
Fully Diluted				
Common shares outstanding at beginning of year	3,239,762	3,230,080	3,239,762	3,230
Weighted average of stock options exercised	25,582	2,000	16,746	1
Common equivalent shares for assumed exercise of employee stock options	273,637	231,465	264,979	231
Weighted average number of shares used in calculation of fully diluted earnings per share	3,538,981	3,463,545	3,521,487	3,462
Fully diluted earnings per share	\$1.05	\$1.37	\$3.73	\$

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