EXHIBIT
T-314

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 29, 1985	Commission file number 1-8364

RAYMARK CORPORATION
(Exact Name of Registrant as specified in its charter)

CONNECTICUT	06-1045632
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Oakview Drive Trumbull, Connecticut	06611
(Address of principal executive offices)	(Zip Code)

(203) 371-0101
(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 - $12.50 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 filing requirements for the past 90 days.

Yes __X__ No _____

As of March 28, 1986, 3,012,280 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 $29.73 million.

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PART I

Item 1. BUSINESS

(a) General Development of Business

Raymark Corporation (at all times herein referred to as "Registrant") was organized in 1981 as a Connecticut Corporation. On June 28, 1982, Registrant became the public holding company for its operating subsidiary, Raymark Industries, Inc. (the "Company"). The Company is the legal successor to Raybestos-Manhattan, Inc. ("Raybestos"). Raybestos was originally organized as a New Jersey corporation in 1929 and was reorganized as a Connecticut corporation in 1976. The Company is principally engaged in the manufacture and distribution of energy absorption and transmission products.

Since 1980 the Registrant has experienced heavy costs in connection with asbestos-related litigation discussed below, declining markets for its products, strong price competition and inability to generate cash needed for capital improvements and working capital. Consequently, being unable to sustain profitable operations in certain of its businesses, the Registrant disposed of Minnette Mills in 1981, North Charleston, S.C. industrial products operations in 1982, Modulus and Milford Rivet operations in 1983, its Brake Systems Division (discussed below) in 1985 and its headquarters building (discussed below) in 1985. The Company also restructured its Manheim, Pennsylvania operations in 1985 to reflect its lower level of operations (discussed below). During this period sales and year end net worth declined from $352 million and $112.4 million, respectively, in 1981 to $101 million and $3.6 million, respectively, in 1985. The sale of certain non-operating assets is planned in 1986 to provide additional cash flow. In 1981 a 31% stock interest in Registrant was acquired by Hi-Shear Industries, Inc., most of which was sold to Echlin, Inc. ("Echlin") in 1984 which owned 745,000 shares (26%) of the Registrant's common stock outstanding at December 29, 1985.

In March and April 1985 the Company sold substantially all of the assets, subject to certain liabilities, of its Brake Systems Division for an aggregate of approximately $50.0 million, after the adjustments discussed below, to Brake Systems, Inc. ("BSI"), a wholly-owned subsidiary of Echlin. This division manufactured dry brake friction products for sale to motor vehicle Original Equipment Manufacturers ("OEM's"), and distributed brake components to the automotive replacement parts market. As a result of a reduction in net assets of the Brake Systems

Division between December 30, 1984 and March 17, 1985, th net proceeds of the sale were to be reduced by approximat $6.0 million. In August 1985, Echlin and BSI brought sui against the Registrant and the Company seeking payment of $6.0 million as an adjustment to the purchase price. Thi suit was settled in April 1986. As a part of the settlement, Echlin will receive a note in the face amount $6.5 million, which includes accrued interest, convertibl into common stock of the Registrant, and will release certain funds which it garnisheed in 1985. (Refer to Item 8, Note H.)

At the Annual Meeting of Shareholders on June 14 1985, Management nominated Messrs. Harry D. Day, John G. Rohrbach and D. Lee Tobler for election as Class III Directors (term expiring 1987). At the meeting Echlin al nominated three candidates for these positions, voted its shares for their election and urged management changes. an amendment to a Schedule 13D dated June 7, 1985 and fil with the Securities and Exchange Commission, Echlin state that it did not intend to direct or cause the direction o the management or policies of the Registrant. On September 13, 1985, Frederick J. Ross, President and Chie Executive Officer of the Registrant, was terminated by th Board of Directors and Craig R. Smith was elected Preside Litigation between Registrant and Echlin, which arose out the election, was settled on March 31, 1986. At a Reconvened Meeting of Shareholders to be held on April 3C 1986, Management nominees are to be elected. In connecti with the settlement of the litigation and at the suggesti of Echlin, Mr. Day agreed to resign as a Class III Direct in favor of Mr. Anthony E. Mirti, Mr. Donald Miller was elected as a Class I Director (term expiring 1988) in plε of Mr. Frederick J. Ross who resigned as a Director on March 4, 1986 and the Directors of the Registrant informε agreed with Echlin, on the basis of a nine member Board, support for an indefinite period in the future the continuance of Messrs. Miller, Mirti, David A. Wingate ar Ealan J. Wingate, or other persons acceptable to Echlin, Directors of Registrant. In addition the Directors agree to propose to shareholders an amendment of the By-laws oi the Registrant to provide that (i) vacancies on the Boarc other than those created by an increase in the number of Directorships which must be filled by action of shareholders, must be filled only by vote of three-fourtl of the remaining directors and (ii) a three-fourths vote Directors is required to designate or remove members of committees of the Board of Directors or to fill vacancie: or abolish such committees. Mr. Tobler has resigned fror the Board effective at the 1986 Annual Meeting of Shareholders and Mr. Smith has been elected a Director t complete Mr. Tobler's term. (Refer to Item 3, "Legal Proceedings -- Other Litigation".)

In August 1985, the Company completed the sale of its headquarters building in Trumbull, Connecticut. Under the terms of the agreement the Company leased back 20,000 square feet of the facility which are being used as its corporate headquarters. (Refer to Item 8, Note E.)

The terms of the employment agreement between the Registrant and Mr. Ross called for certain cash payments to Mr. Ross over a period of years as a result of his termination on September 13, 1985. Because the Registrant has been experiencing a cash shortage, these obligations were renegotiated to provide for delivery of shares of common stock of the Registrant to Mr. Ross in place of the principal portion of the cash called for by the employment agreement. Under a settlement agreement dated March 4, 1986 the Company paid Mr. Ross in cash or by promissory notes an aggregate of $450,000, including amounts previously paid to him subsequent to his termination, and 126,000 shares of common stock of the Registrant. Under certain circumstances the failure by the Registrant to pay all or any part of $301,911 represented by promissory notes mentioned above will entitle Mr. Ross to receive up to 30,000 additional shares of common stock in place of such notes. Registrant has agreed to register at its expense all of such shares under the Securities Act of 1933 for resale by Mr. Ross. Valuing the shares at $13.50 per share, the closing price of the Company's common stock on March 4, 1986, the date of the settlement agreement, and assuming the notes are paid when due, the cost of the settlement with Mr. Ross would be approximately $2.1 million. (Refer to Item 8, Note N.)

In September 1985, the Company initiated a restructuring program (the "Program") designed to strengthen its competitive position in its primary markets and save approximately $9.5 million per year in operating costs. Under the Program, in the fourth quarter of 1985, the Registrant implemented a 15% reduction in the salaried work force and an average 10% salary reduction. During the third quarter of 1985, certain manufacturing facilities, principally at the Company's Manheim, Pennsylvania facility, and related inventories impaired by changed economic conditions were written down on the books of the Company to their net realizable value and certain termination costs were accrued, resulting in a charge to earnings of $10.9 million or $3.81 per share. (Refer to Item 8, Note F.) In the first quarter of 1986 the Company modified certain major salaried fringe benefits. Completing the Program in January 1986, the Company entered into a cost reduction agreement, effective April 1, with the United Textile Workers of

America at its Manheim, Pennsylvania facility. The packa included an average 15% wage reduction and substantial reductions in future service pension benefits, group insurance and holiday and vacation pay, and provided cert incentives for increased productivity. Because the Manhe facility, which accounted for approximately 22% of the Company's sales in 1985, incurred operating losses for th last three years, the Company informed the union during t negotiation of the cost reduction agreement that over tin unprofitable product lines would be transferred to more economically attractive locations. The Company believes that the cost reduction program should permit the Manheim facility to generate operating profits in 1986. The Comp also agreed with the union to spend on capital improvemer at the Manheim facility approximately $2.5 million in 198

While the restructuring and austerity measures outlined above are designed to reduce costs, eliminate wa and strengthen its competitive position, the Company continues to experience the effects of a severe downturn its dry clutch and brake markets due to overcapacity caus by increased foreign competition and decreased demand in farm equipment and industrial friction original equipment markets.

During 1985 the Company continued to experience cash flow constraints and at year end was in violation o: financial covenants under its debt agreements. Loan repayments under the Company's Revolving Credit Agreement originally due in December 1985 and March 1986 were defe by agreements with the Company's lenders. As of Februar 1986 the lender under the Company's Term Loan Agreement agreed to restructure an otherwise due repayment of $4.9 million. In April 1986, the debt agreements were amended to cure the above violations as at year-end and revise certain financial covenants and payment terms, an noted above, a note convertible into stock was delivered Echlin in satisfaction of an acquisition adjustment obligation. (Refer to Item 8, Note G.)

Barring further unforeseen downturn in business assuming continued favorable effect of the restructuring noted above, and assuming that asbestos litigation costs 1986, discussed below, are fully covered by insurance, t Registrant believes it will generate sufficient cash flo satisfy 1986 debt maturities, working capital and capita spending needs. However, internally generated funds may be sufficient to meet 1986 pension contribution requirem if Internal Revenue Service waivers are not granted or a potential federal and/or state tax assessments, asserted aggregate approximately $4.5 million, for prior years wh are currently under review become due. The required contribution for the pension plans in September 1986 will be $2.8 million. The Company has permanently suspended the salaried pension plan at year-end 1985 and may terminate the plan in 1986. Such suspension or termination may significantly reduce the contribution requirements due in September 1986. In the event such reductions are insufficient, further payment waivers will be sought from the Internal Revenue Service. Should all or a portion of the tax assessments become due in 1986, the Company will pursue any legal recourse available to it to contest such assessments or will seek extended payment terms. Management believes that incremental borrowing capacity may be available from current creditors and/or from new sources. (Refer to Item 7 and Item 8, Notes G, K and L.)

As discussed in detail in Item 3 below, asbestos-related lawsuits continue to place an extremely heavy burden on the Company and upon Management. At December 31, 1985, 22,543 asbestos-related complaints, representing claims by 27,499 plaintiffs were pending against the Company. During 1985, 9,400 additional asbestos-related complaints, representing 10,750 plaintiff claims, were served on the Company, which was a substantial increase over the number of complaints served in 1984.

Of approximately $395 million of primary and excess insurance purchased by the Company between 1941 and 1982, approximately $310 million was unused as of December 31, 1985. An unusually large number of settlements were achieved in the first quarter of 1986, leaving approximately $285 million unused as of March 31, 1986. Substantially all of the liability and defense costs associated with the Company's asbestos-related lawsuits continue to be funded by the Company's primary and first level excess carriers pursuant to an October 1984 order of the Circuit Court of Cook County, Illinois. At March 31, 1986 approximately $30 million of first level excess insurance remained available. An insurer responsible for $32 million of excess insurance, including $12 million in the Company's $64 million second level excess insurance, was declared insolvent in December 1985. In March 1986, in a Texas class action suit, the Company was threatened with a possible verdict for an unacceptably high amount, including punitive damages, which would have caused precipitous and unanticipated exhaustion of the insurance remaining available in the first level of excess insurance and the consequent need earlier than anticipated to call upon the second level of excess insurance in which the uncertainty of coverage due to an insurer's insolvency exists. In these circumstances the Registrant's Board of Directors on March 18, 1986 authorized the filing of a petition for relief under Chapter 11 of the United States Bankruptcy Code in the event a settlement of the Texas class action suit could not be effected on favorable terms; the suit was settled on March 19, 1986 or terms satisfactory to the Company. Based upon prior experience and based upon the determination of the Company in March 1986, to severely restrict settlements of large numbers of cases, the Company believes that the insurance funds remaining available under the October 1984 funding order will not be exhausted before early 1987. The Compa believes that, prior to exhaustion of such insurance fund and the consequent expiration of such funding order, it ca arrange continued funding involving its second level exce insurance carriers for substantially all liability and defense costs of underlying asbestos litigation. However because of uncertainties relating to the liquidation of o of the Company's second level excess carriers, and litigation with another such carrier, uninterrupted fundi of substantially all such costs is not assured. Interruption in funding for substantially all such costs would severely and immediately impact the Company's liquidity.

Because of uncertainty in the ultimate outcome o litigation in Illinois, New York and Connecticut regardin the obligations of the Company's insurers, which is described in Item 3 below, because of uncertainty relatin to the recoverability of the coverage provided by the insolvent insurer, because of the possibility of punitive damage awards not covered by insurance and because of the uncertainty as to the number of asbestos-related lawsuits still to be filed and the cost of disposition of all pend and future cases, it is not possible to predict whether t cost of settling and defending existing and future cases will be fully covered by insurance and, if not, what impa excess costs would have on the Registrant's consolidated financial position and results of operations in future years. Under the circumstances, there can be no assuranc that the Company will not be required to seek relief unde Chapter 11 of the United States Bankruptcy Code at some t in the future. Because of funding arrangements currently effect for asbestos-related litigation costs, described above, management does not believe such action would be required in 1986.

(b) Summary of Financial Information

The sales and operating loss of the Company and identifiable assets, for the fiscal years ended December 1985, December 30, 1984, and January 1, 1984, are set for herein on pages 32 and 33.

(c) Narrative Description of Business

Introduction

The Company is a multinational manufacturer and marketer of energy absorption and transmission products. Its products are used in the automotive, aerospace, nucleonics, petrochemical, metal working, construction and utility industries, among others.

The Company operates through three business units: Wet Clutch and Brake, Dry Clutch and Brake, and a European business unit. The Wet Clutch and Brake unit operates from the Company's Crawfordsville, Indiana, and Stratford, Connecticut facilities, and manufactures and markets friction materials which operate in an oil-immersed environment for use in automatic transmissions and wet-brake applications in the automotive and heavy duty applications.

The Dry Clutch and Brake unit, operating from the Manheim, Pennsylvania, Stratford, Connecticut and Marshville, North Carolina facilities, manufactures and markets dry application friction materials for use in automotive, truck, bus and specialty applications.

The European business unit, Raybestos Industrie-Produkte GmbH, operates a manufacturing facility in Radevormwald, West Germany, which produces friction materials for automotive and general industrial needs within the European Common Market. The Company is also a party to a joint venture in Japan which is primarily involved in wet friction applications.

Sales Methods

The Company serves the on and off-highway markets by sale of its products to OEM's of heavy trucks, buses, construction equipment and agricultural machinery, and through distributors supplying components and replacement parts for these vehicles.

The construction equipment and agricultural machinery industries comprise the Company's off-highway market. Each has two segments: OEM and aftermarket. The aftermarket is supplied primarily through the OEM's, who sell products directly to equipment distributors.

Sales by the Company are made both to OEM's and distributors by company sales representatives. Sales in both the original equipment and replacement markets 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.

Raymark's products are sold around the world, through export from the Company's U.S. plants, through th Company's wholly-owned affiliate in West Germany, and through a joint venture in Japan.

Raw Material Availability

The principal raw materials used in the manufact of energy absorption and transmission products include co rolled steel, metal powders, synthetic resins, plastics, synthetic and natural fibers, including asbestos fibers. All of these materials are readily available from a numbe of competitive suppliers.

Patents and Trademarks

The Company owns a number of patents and derives licensing royalties from certain of those patents, and is licensee of other patents. Such patents expire between 1 and 2000. In the opinion of management, the Company's business is not dependent upon the protection of any of i patents or licenses and would not be materially affected the expiration of any of such patents and licenses.

The Company operates under a number of registere and common law trademarks, including the trademark "RAYBESTOS". Certain trademarks were sold as part of the assets of the Company's Brake Systems Division, and the buyer received a limited license to use the "RAYBESTOS" trademark.

Competition, Significant Customers and Backlog

The Company faces vigorous competition with res to price, quality and service in the energy absorption a transmission products markets from both foreign and dome competitors. Foreign competition increased during the l year and is a source of the decline in sales of the Dry Clutch and Brake Division in particular. During fiscal approximately 15% of the Company's sales were to Caterpi Tractor Company, which purchased primarily wet clutch an brake products for use in agricultural and construction equipment. Backlog in the energy absorption and transmission products markets at the end of 1985 and 198 was $34.7 million and $40.1 million, respectively. It i anticipated that current backlog will be filled in 1986.

Employees

At year-end 1985 the Company employed approximately 1,600 employees, a decrease of 1,400 employees from year-end 1984, resulting from the sale of the Brake Systems Division and the implementation of the Company's restructuring program described above. The Company has agreements with labor unions relating to wages, hours, fringe benefits and other conditions of employment which cover most of its production employees. As more fully described above, the Company recently completed renegotiation of certain contracts of its union workforce, resulting in lower average hourly payroll costs.

Capital Expenditures

Capital expenditures were $3.3 million and $8.4 million for 1985 and 1984, respectively. Capital expenditures for 1986 are currently projected at $6.8 million.

Research and Development

Research and development costs were approximately $3.9 million, $3.5 million and $3.0 million for 1985, 1984 and 1983, 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.

Environmental Matters

Various federal, state and local laws and regulations related to the discharge of toxic and potentially hazardous materials into the environment, and the occupational exposure to asbestos fiber, lead and noise, has affected and will continue to affect the Company's operations, both directly and indirectly, in the future.

In January 1986, the Environmental Protection Agency ("EPA") proposed a rule under the Toxic Substances Control Act ("TSCA") to limit the mining, importation and use of asbestos in certain non-friction products and to phase out the use of asbestos in all other products, including friction products. EPA is currently soliciting comment on the proposals. The Company uses asbestos in the manufacture of some of its friction products, including certain brake linings, clutch facings and wet friction power transmission elements, and in certain reinforced plastics. These products would be subject to the proposed rule, with the importation of asbestos being limited in the first ye to 30% of the average yearly amount imported by the Compa during 1981 through 1983, and phased out over ten years. Under the various alternative rules which have been proposed, the use of asbestos in certain non-friction products would be immediately banned, and its use in friction products would be banned approximately five year after implementation of the rule.

Adoption of the proposed rule or any of the proposed alternatives would cause some disruption in the Company's business, but would have no immediate consequences. The Company's continuing research and development efforts are expected to minimize the impact c the final rule. No projection can be made at this time a to the final effect of any regulation.

In November 1985, the Company established a trus fund of approximately $0.5 million for funding of closure and post-closure costs for hazardous waste sites in accordance with the requirements of the Resource Conservation and Recovery Act. Prior to such date, the Company was not in compliance with the financial requirements of the Act and may be subject to substantia penalties as a result. No claim for such penalties has b asserted and the amount of such penalties, if any, is not currently determinable.

Air and water pollution and hazardous waste controls are continually being upgraded at the Company's existing manufacturing facilities.

The Company is currently operating its Manheim facility while in a dispute with the Pennsylvania Departı of Environmental Resources ("DER") on the issuance of operating permits. On April 9, 1986, the Company receiv an order from DER to shut down the Sheeter Line at the Company's Manheim facility. Since the Sheeter Line, whi accounted for about $2.5 million in sales in 1985, is no itself in violation of environmental regulations, the Company believes that the order will ultimately be lifte The Company does not believe that the closing of the She Line would have a substantial adverse impact on the Company's operations or liquidity. The Company intends t appeal this order and has no immediate plan to shut down operation. (Refer to Item 3, Legal Proceedings.)

Occupational Safety and Health Administration ("OSHA") Standards apply, among other things, to occupational exposure to asbestos fiber, lead and noise. The Standard most significant to the Company established limit for airborne concentrations of asbestos fiber effective July 1972 and a stricter limit effective July 1976. During 1983 OSHA adopted an Emergency Temporary Standard ("ETS") limiting employee exposure to .5 airborne asbestos fibers per cubic centimeter of air based upon an eight-hour time-weighted average. The ETS was subsequently struck down by a reviewing court. OSHA has sought public comment as part of the formal rulemaking process on a proposal to set exposure limits for asbestos. The proposal is now being discussed between OSHA and the Office of Management and Budget. It is anticipated that the final rule will limit exposure to 0.2 fibers per cubic centimeter. Management believes that the Company can comply with this standard, either through engineering controls or through the implementation of a respiratory program for its employees.

The Company's recent construction projects have been designed to comply with applicable environmental standards, and the cost of pollution control facilities is included in construction budgets for these projects.

Expenditures for environmental compliance, including capital expenditures, are projected to be $0.8 million in 1986. Because environmental regulations are constantly being revised and are subject to differing interpretations by regulatory agencies, the Company is unable to predict the long-range cost of compliance with environmental laws and regulations. Nevertheless, management believes that compliance with such regulations should not materially affect the Company's earnings or competitive position.

(d) Financial Information About Foreign Operations

Financial information about foreign operations of the Company for the fiscal years ended December 29, 1985, December 30, 1984 and January 1, 1984, are set forth in Note P to Consolidated Financial Statements, included herein.

Item 2. PROPERTIES

The Company has manufacturing plants located in Crawfordsville, Indiana; Manheim, Pennsylvania; Marshville, North Carolina; and Stratford, Connecticut. Additionally, a plant owned by Raybestos Industrie-Produkte GmbH is located in Radevormwald, West Germany. Additional manufacturing capacity is available through a joint venture in Japan. (Refer to Item 1(c)). The plants provide the necessary productive capacity to meet reasonably anticipated demand.

A majority of the Stratford facility is currentl: leased out to third parties. Approximately 33,600 square feet of warehousing space is leased out for a four-year term, terminating April 1990. Another 280,000 square fee of manufacturing and office space is leased to BSI. That lease is scheduled to terminate in March 1988, but is subject to a two-year renewal option and a purchase optio: The purchase option, which must be exercised before mid-September 1986, provides for the property to be sold at f market value.

The Company's Canadian subsidiary leases, throug March 1988, its facility in Peterborough, Ontario to a subsidiary of Echlin. Under the lease, the lessee has an option to purchase the property for fair market value at end of the second and third years of the term.

The Company occupies, under a lease terminating 1990, 20,000 square feet for its corporate headquarters i: complex located in Trumbull, Connecticut.

Substantially all of the properties owned by the Company are encumbered to secure borrowings. (Refer to Item 8, Note G).

The Company believes that its properties are substantially suitable and adequate for their purposes. ' Company's facility at Manheim, Pennsylvania, which has be written down in the Company's financial statements as discussed in Item 8, Note F, is subject to overcapacity a: is not up to date with current manufacturing technology. The Company entered into a cost reduction agreement with union workers at Manheim in connection with the restructuring described above, and has budgeted $2.5 mill of capital improvements in 1986. The Company's facilitie are continually being upgraded to comply with applicable environmental standards and to improve efficiency.

Item 3. LEGAL PROCEEDINGS

In this Item 3, the term "Company" shall include in some cases, the Registrant and/or an affiliate or affiliates thereof, and the predecessors of any of the foregoing. The Company is involved in the following material pending legal proceedings:

Asbestos-Related Litigation

Asbestos is a generic term given to a number of minerals taken from the earth by mining. Because of its great tensile strength and high resistance to heat, asbes has been used for over a century in a variety of commercial and industrial applications. In recent years, medical science has determined that excessive inhalation of airborne asbestos fibers may, after the passage of years, result in a variety of diseases.

Over the years, the Company has utilized asbestos in its factories and has manufactured products containing asbestos. As a result, installers and users of products and other persons who allegedly suffer from diseases attributable to exposure to airborne asbestos fibers have instituted numerous lawsuits, primarily in the nature of product liability claims, in numerous jurisdictions against the Company and others seeking substantial damages. The number of defendants varies from suit to suit, but generally ranges from ten to twenty named defendants. The plaintiffs have sought damages against all defendants ranging from tens of thousands to hundreds of millions of dollars for alleged wrongful death or injury resulting from exposure to airborne asbestos fibers. Since the range of damages sought is typically asserted against multiple defendants, the amount sought against any single defendant is usually substantially less than the total demand. At December 31, 1985, 22,543 asbestos-related complaints, representing claims by 27,499 plaintiffs (as compared with 18,764* complaints at December 31, 1984, 14,936 complaints at December 31, 1983, 11,768 complaints at December 31, 1982, 8,719 complaints at December 31, 1981 and 5,194 complaints at December 30, 1980) were pending against the Company with 12,342 cases, representing 13,123 plaintiffs' claims, having been terminated by settlements, dismissals, summary judgments and trial verdicts. Since the beginning of the litigation and through December 31, 1985, settlements have averaged approximately $6,075 per claim, exclusive of defense costs, and disposition costs per claim including claims disposed of for no cost and exclusive of defense fees have averaged approximately $5,600. Defense fees typically are less than 50% of settlement costs.

Normally only compensatory damages are awarded against the Company. However, in eleven cases punitive damages have been awarded to the plaintiff. These eleven cases were typical of other cases tried and had no special facts or circumstances supporting an award of punitive

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* The number of active pending cases reported last year for the period ending December 31, 1984 was 18,667. The additional 97 cases reported herein reflect an adjustment resulting from an on-going audit of claims.

damages. The Company has settled five of the eleven cas
in which punitive damages were awarded following the ent
of judgment, each for $70,000 or less; four of the cases
currently on appeal; one case was successfully appealed
is to be retried; one case was reversed and judgment ent
in favor of the Company. Whether punitive damage awards
insurable is a matter of state law, which varies from st
to state. It is not possible for the Company to predict
whether a punitive damage award against it, sustained on
appeal, will be covered by insurance.

During the period from December 31, 1984 to Dec
ber 31, 1985, 9,400 additional asbestos-related complain
were served upon the Company, representing 10,750 plain-
tiffs' claims. During that same period approximately 5,
cases, representing 5,668 plaintiffs' claims, were
terminated through settlements, dismissals, summary
judgments or trial verdicts.

The 9,400 complaints filed against the Company
1985 compare with 6059 and 5308 complaints filed in the
years 1984 and 1983, respectively. The Company expects
additional asbestos-related personal injury lawsuits to
initiated in the future against it.

On October 10, 1985, Judge Robert M. Parker, in
step unprecedented in asbestos personal injury litigatio
certified a voluntary class action of 893 cases pending
the United States District Court for the Eastern District
Texas. Following the entry of the district court's class
action order, an appeal was filed by the Company and othe
defendants. On February 5, 1986, the United States Court
Appeals for the Fifth Circuit affirmed the district court
class action order. The Company pursued further appeals
the district court's order in the belief that the treatme
of asbestos cases by means of class actions is
inappropriate. Nevertheless, under the terms of the
district court's class action order, the trial of claims
13 representative plaintiffs commenced March 10, 1986.
addition to determining the liability of the defendants
respect to the 13 representative plaintiffs, the jury was
have determined the following issues as to the remaining
plaintiffs' claims: (1) as to each defendant, whether th
products created sufficient hazard to cause harm; (2) as
each of defendant's products, whether the product was
defective and unreasonably dangerous; (3) at what point
time each defendant knew or should have known of the ris
asbestos exposure to end-users of those products; and
(4) the amount of punitive damages, if any, which should
awarded to the entire class of plaintiffs. The
determination of those issues by the jury was to bind the
parties as to all members of the class. Following the c

action trial, so-called "mini-trials" were to have been conducted to determine issues unique to the remaining individual plaintiffs, including: (1) whether the plaintiff was exposed to the defendant's products, (2) what damages, if any, were legally caused thereby; and (3) the comparative fault of the individual plaintiff.

In the face of a possible verdict for unacceptably high amounts including punitive damages, and unable, as of March 18, 1986, to procure a settlement of the Texas class action upon terms which did not threaten precipitous and unanticipated exhaustion of insurance funds available to the Company under the October 1984 funding order, hereinafter discussed, the Company's Board of Directors, on March 18, 1986, conditionally authorized the filing of a petition for relief under Chapter 11 of the United States Bankruptcy Code. Such authorization provided specifically that the petition be filed in the event a settlement satisfactory to the Company could not be effected; on March 19, 1986, the litigation was settled upon terms which alleviated the threat of imminent exhaustion of available insurance, thus obviating the necessity of filing the Chapter 11 petition. The Company will continue to oppose certification of class actions in asbestos personal injury litigation. However, it is uncertain whether future motions, if any, to certify class actions on behalf of additional claimants will be successfully opposed.

In the United States District Court for the Eastern District of Pennsylvania approximately ten present and former employees (and certain members of their families) at the Company's Manheim, Pennsylvania plant, have instituted legal actions seeking compensatory and punitive damages for alleged injuries resulting from exposure to airborne asbestos fibers. (Similar actions previously commenced by some fifty former or present employees have been amicably resolved by the Company.) A six-judge panel of the district court ruled that workers' compensation was the plaintiffs' exclusive remedy and dismissed plaintiffs' actions. The plaintiffs' appeal from the district court panel's ruling is now pending in the United States Court of Appeals for the Third Circuit. In addition, the Company has been named with others in various lawsuits by former employees in Connecticut seeking damages for alleged injuries resulting from exposure to airborne asbestos fibers.

The Company has been named as a defendant, together with other companies, in a series of property damage cases in which the plaintiffs, primarily school boards and other public entities, seek damages for the removal of asbestos-containing products located in buildings. As of December 31, 1985 the Company was named as a defendant in 82 such cases, as compared to 43 cases as of December 31, 198 Two of those 82 cases were dismissed without prejudice against the Company in 1985. Among the cases pending against the Company is a class action filed in the United States District Court for the Eastern District of Pennsylvania. On September 28, 1984, the district court issued an order certifying a "mandatory" class on the plaintiffs' punitive damage claims and a "voluntary" clas on all remaining issues. The certified class consists of all elementary and secondary educational facilities in th United States. The district court's class certification order is currently on appeal by the Company. If sustaine the court's order would prohibit plaintiffs from litigati claims for punitive damages against defendants in other pending cases but would permit plaintiffs to file separat actions for compensatory damages. The property damage ca filed against the Company are in their early stages and i is not possible to predict their outcome at this time.

Additional information concerning asbestos cases will be furnished by the Company to interested parties up receipt of a written request therefor.

Because of a dispute among the Company's insuran carriers, the Company was required, prior to November 14, 1983, to absorb approximately 39% of the costs associated with asbestos-related litigation. The insurance dispute the subject of a Declaratory Judgment action brought in 1 in the Circuit Court of Cook County, Illinois entitled <u>Zurich Insurance Company and Northbrook Insurance Company Raymark, et al</u>. The central issue in the litigation is which insurance carriers are required to defend and indemnify the Company against lawsuits arising from asbestos-related disease caused by exposure to products manufactured by the Company. Certain of the carriers hav argued the "exposure" theory, namely, that insurers whose policies were in effect during the claimant's exposure to the products have coverage responsibility. Other carrier have advanced the "manifestation" theory arguing that insurers whose policies were in effect when an asbestos-related disease first manifests itself must respond. An important ancillary issue in the litigation is whether primary-level insurers have an obligation to provide the Company with a defense against asbestos-related claims af exhaustion of policy limits.

In September 1983, the Court ruled that both the exposure and the manifestation theories were applicable, that carriers with policies in force during the period of exposure or at manifestation, as well as during a period sickness between exposure and manifestation, were liable defending and indemnifying the Company. In June 1984, th

Court ruled that pre-September 26, 1967 policies obligated the respective carriers to provide the Company with a defense against all claims, even after exhaustion of applicable policy limits for indemnity. The Court ruled further that any insurer which had accepted the defense of a lawsuit against the Company, prior to the exhaustion of its indemnity limits, was required to continue the defense of that lawsuit, even after exhaustion of indemnity limits. This aspect of the Court's ruling was modified in July 1984 to provide that issuers of post-September 26, 1967 policies would have a defense obligation after exhaustion of indemnity limits only if no other insurer was required to provide a defense.

The Court's September 1983 and June 1984 rulings are still under appeal and, although there can be no assurances, the Company believes that such rulings will be substantially sustained. If sustained, these rulings should, subject to certain contingencies referred to hereinafter, provide the Company broad access to its insurance pool. Upon resolution of all issues in the litigation, the Company believes it will be entitled to reimbursement of more than $20 million previously expended by it, together with interest.

In November 1983, February 1984, July 1984 and October 1984, the Court entered interim funding orders requiring the Company's primary insurance carriers, and then its primary and first level excess insurance carriers, to pay, on behalf of the Company, substantially all liability and defense costs associated with asbestos-related litigation. By late 1984, the primary level carriers claimed to have exhausted their indemnity limits of approximately $29 million. Under the terms of the October 1984 funding order, which by agreement of the parties was not appealed, the first level excess carriers are paying the liability costs of such litigation and the defense costs thereof are being allocated one-half to the primary level carriers and one-half to the first level excess carriers. The order will remain in effect until (a) further order of the Court for good cause, (b) final determination by the highest appellate court of the June 1984 order, (c) any first level excess insurer shall have exhausted its limits, or (d) the bankruptcy of the Company.

On September 30, 1985, the United States District Court of the District of Connecticut denied the Company's motion to dismiss a Declaratory Judgment action previously filed against the Company by Lumbermens Mutual Casualty Company, one of the Company's second level excess insurance carriers which sold the Company two policies with stated limits totaling $10 million. Lumbermens espouses the "exposure" theory of coverage for asbestos-related claims The Company has countersued Lumbermens. No trial or substantive decision is expected until 1987 at the earlie

Federal Insurance Company, one of the Company's primary insurance carriers, has been defending the asbest related property damage lawsuits on behalf of the Company under a reservation of rights to assert that it is not obligated to provide coverage. The pleadings in the Cook County, Illinois litigation have been amended to include property damage insurance coverage issues. Federal Insurance Company has also filed a Declaratory Judgement action in the United States District Court for the Southe District of New York entitled Federal Insurance Company v Raymark Industries, Inc. in which it seeks a declaration non-coverage for the property damage claims or, alternatively, a declaration that its policies are void. The Company has moved to dismiss Federal's lawsuit and on March 31, 1986 the court entered a stay pending the determination of the issues in the Cook County litigation

By order of the Circuit Court of Cole County, Missouri dated December 3, 1985, as modified on December · 1985, Transit Casualty Company was declared insolvent and the Acting Director of the Missouri Division of Insurance was named as receiver to liquidate Transit. The Company purchased a total of $32 million of excess liability insurance from Transit, including $12 million out of $64 million in its second level of excess insurance. The Company has made claim against the Connecticut Insurance Guarantee Association. While the Company believes it has adequate recourse against such Association and against th insolvency guarantee funds of various states and/or again Transit in the liquidation proceedings, it is unknown at this time whether or to what extent the Company will be al to recover the $32 million of Transit coverage.

Of the approximately $395 million of primary and excess insurance purchased by the Company between 1941 an 1982 (including the Transit excess coverage), approximate $310 million was unused as of December 31, 1985, and approximately $285 million was unused as of March 31, 198 Under the October 1984 funding order, approximately $55 million as of December 31, 1985, and approximately $30 million as of March 31, 1986, of first level excess insurance remained available. Based upon prior experienc and based upon the determination of the Company, in March 1986, to severely restrict settlements of large numbers o cases, the Company believes that the insurance funds remaining available under the October 1984 funding order will not be exhausted before early 1987. The Company believes that, prior to exhaustion of such insurance fund and the consequent expiration of such funding order, it can arrange continued funding involving its second level of excess insurance carriers for substantially all liability and defense costs of underlying asbestos litigation. However, because of uncertainties relating to the cost of disposing of cases, the liquidation of Transit Casualty Company and the litigation in Connecticut involving Lumbermens Mutual Casualty Company, uninterrupted funding of substantially all such costs is not assured. Failure to achieve uninterrupted funding for substantially all such costs would severely and immediately impact the Company's liquidity. Because of the uncertainty of the ultimate outcome of the Illinois, New York and Connecticut insurance litigation, because of the uncertainty relating to the Transit Casualty Company coverage, because of the possibility of punitive damage awards not covered by insurance, and because of the uncertainty as to the number of asbestos-related lawsuits still to be filed and of the cost of disposition of cases, it is not possible to predict whether the cost of settling and defending existing and future cases will be fully covered by insurance and, if not, what impact excess costs would have on the Registrant's consolidated financial position and results of operations in future years.

In accordance with a deadline imposed by the bankruptcy court in connection with the Manville Chapter 11 reorganization proceedings, the Company has filed a proof of claim against Manville for those property damage cases in which the Company had then been served in an effort to obtain contribution from Manville for any liability which the Company may incur as a result of property damage claims filed by plaintiffs.

Other Litigation

Civil Rights

In August 1982, a claim entitled Williams v. Modulus Corporation, alleging racial discrimination with respect to compensation, was filed with the Pennsylvania Human Relations Commission by an employee of the formerly-owned Modulus operation. The Complaint sought, among other items, damages for back pay and injunctive relief. Evidence has been submitted by both parties. To date the Company has not been advised of the disposition of the matter by the Commission. The Company believes it has good defenses to the claims.

Commercial Litigation

In September 1982 Registrant commenced a civil action entitled Raymark Corporation v. R/M Industrial Products Company, Inc. ("RMIPCO") in the Court of Common Pleas for Charleston, South Carolina, seeking payment of balance of the purchase price for a facility formerly owr by Registrant in North Charleston, South Carolina. In February 1986, the parties entered into a settlement agreement under which the original subordinated note due the Company was reduced from $3.0 million face value to $ million face value, and the Company agreed to purchase products from RMIPCO through 1986. In addition, the part agreed to resolve certain pension disputes through arbitration; this should take place during 1986.

In June 1983, Cecile Industries, Inc. commenced action entitled Cecile Industries, Inc. v. Raymark Corporation, which was subsequently removed to the Unitec States District Court for the Eastern District of New Yor seeking approximately $5.0 million in damages for allegec breach of contract and warranty arising out of the sale c products allegedly produced by the Company. The Company filed a counterclaim seeking (a) dismissal of the Plaintiff's complaint and (b) damages in the sum of approximately $0.4 million, representing the unpaid balar on the purchase price of certain goods sold to Plaintiff. In October 1984, Cecile Industries, Inc. filed a petitior bankruptcy. During the pendancy of the bankruptcy matter the civil litigation is stayed. The Company believes its claims are meritorious and expects to ultimately prevail.

Since September 1983, the Company has been engac in a dispute with RBS Industries, Inc. ("RBS") arising ou of the sale of certain assets to RBS in August of 1983. September 1984, the Company began a foreclosure action or mortgage on certain property of RBS in Fullerton, California, which secured a $3.0 million note given the Company as part of the payment of the purchase price. Ir April 1985, RBS instituted an action entitled RBS Industries, Inc. v. Raymark Corporation et al. in the Superior Court of the State of California, County of Los Angeles, seeking to enjoin the foreclosure and seeking actual and punitive damages in excess of $17.5 million. Company believes that Plaintiff's claims are substantiall without merit.

In November 1985, the Company filed a collectior action entitled Raymark Industries, Inc. v. S.A.E. seekir to recover approximately $80,000, representing the purche price of goods sold to the defendant. S.A.E. has filed answer and counterclaim alleging that the Company violate the Robinson Patman Act in the manner in which it priced the products sold to S.A.E. The Company believes the counter-claims are without merit.

Environmental Proceedings

In July 1985, the Company entered into an agreement, together with 119 other entities, with the Environmental Protection Agency to settle claims of the United States relating to the clean-up of a hazardous waste treatment facility known as Keefe Environmental Services, located in Epping, New Hampshire. In November 1985, the Company received a copy of the Summons and Complaint in the matter, captioned United States of America v. Data General Corporation, et al., and a copy of the Consent Decree. The Complaint and Consent Decree were filed with the United States District Court of New Hampshire in October 1985. Under the Consent Decree the Company has denied all liability, but has agreed to pay up to $97,495 toward clean-up of the site. The Company has made demand upon its insurers to cover its expenses in this matter.

In October 1984, the Company was notified that the Trustee of Salt Water Trust, which was located in Plymouth, Massachusetts, has alleged that the Company generated hazardous waste that was disposed of and/or treated on the Trustee's property. Suit has been instituted against various generators, but not against the Company. At the present time, the Company cannot estimate what exposure, if any, it may have.

In December 1983, the Company was served with legal process in a matter entitled Connecticut Fund for the Environment and Natural Resources Defense Council v. Raymark Industries, Inc., pending in the United States District Court, District of Connecticut. In that action the Plaintiffs' seek civil penalties pursuant to the Clean Water Act for discharge from the Company's Stratford, Connecticut facility, which were alleged to exceed allowable limits under the plant's National Pollutant Discharge Elimination System ("NPDES") permit. In March 1986, the Court entered summary judgment for the plaintiffs on the issue of liability and sent the matter to a magistrate on the damages in question. The Company is attempting to settle the case.

In August 1983, the Company was notified that the United States Environmental Protection Agency and the Commonwealth of Massachusetts Department of Environmental Quality Engineering had submitted a claim for clean-up under Federal and State statutes in connection with the Selresim Chemical Corporation hazardous waste facility in Lowell, Massachusetts. It is alleged that the Company, along with over 200 other companies, had forwarded hazardous wastes t such site. Subsequently, an action entitled Commonwealth Massachusetts v. Neil H. Pace, et al. was instituted in th United States District Court for the District of Massachusetts naming the Company and others as defendants and seeking the same relief. The Company has settled with the Massachusetts Department of Environmental Quality Engineering, and has paid approximately $2,800 under the Agreement of Judgment. The Company is continuing to work with other potentially responsible parties and the EPA in determining the extent, if any, of subterranean damage. T Company believes its liability, if any, is limited.

In February 1986, the Company was served with a Summons and Complaint in a matter entitled U.S. v. Raymark Industries, Inc. and Echlin Inc., pending in the United States District Court, District of Connecticut. The suit seeks injunctive relief and civil penalties and monetary damages in an indeterminate amount because of alleged specific visible emissions of asbestos-containing material at the Company's Stratford facility between February 1983 and December 1985. The Company believes there are substantial defenses to each asserted claim. The Company does not believe that its exposure in this case is substantial, but an estimate of exposure cannot be made at this time.

In May 1985, in an action incident to certain inquiries made in 1982, the United States Attorney for the Eastern District of Pennsylvania, at the request of the United States Environmental Protection Agency, filed a Complaint entitled United States of America v. Raymark Corp.; Raymark Industries, Inc.; Pennsylvania Fasteners, Inc.; Richard J. Walker, Ind.; Richard A. Walker and Judith A. Walker; and Telford Industrial Development Authority in the United States District Court for the Eastern District of Pennsylvania. The Complaint alleges contamination of drinking water in Hatboro, Pennsylvania, allegedly due in part to the storage, use and disposal of certain organic solvents at a facility which was formerly owned by companies affiliated with the Company. The Complaint demands that the Company pay for decontaminatior and reimbursement of costs incurred or to be expended by t United States for response activities in connection with t facility, and attorneys fees, costs and expenses of the litigation; no monetary amount has been specified. The Company has filed its Answer to the Complaint, denying liablity, and has brought into the action other entities which it believes may be responsible for the contaminatior No estimate of exposure can be made at this time.

For the past several years, the Company has been engaged in a dispute with the Pennsylvania Department of Environmental Resources ("DER") over allegations that emissions from the Company's Manheim facility violate Pennsylvania's air quality standards because they are "malodorous". The Company has attempted to settle the matter, but DER has refused to agree that installation of the proposed equipment would alleviate the problem. In October 1985, the Company applied to DER for an operating permit to run a new production line for rolled products (the "Sheeter Line"). DER refused to grant the permit, citing a regulation which prohibits the granting of new permits if a facility is in violation of any air quality regulation and claiming that the "malodorous" emission constitutes such a violation. The Company is challenging the refusal to grant the permit on various grounds, and has continued to run the Sheeter Line. On April 9, 1986 the Company received an order from DER to shut down the Sheeter Line. Operation of the Sheeter Line may cause the Company to incur substantial penalties. Although the Company is aggressively pursuing both settlement and its judicial and administrative remedies in these matters, no estimate of time, nor of finanical exposure, can be made at this time.

On March 31, 1986, the Company received a Notice of Potential Liability and Request for Participation in Clean-Up Activities, under the Comprehensive Environmental Response, Compensation and Liability Act from the United States Environmental Protection Agency ("EPA"), in connection with clean-up activities at certain waste disposal sites known as Cannons Engineering Corporation Site in Bridgewater, Massachusetts; Cannons Engineering Corporation Site in Plymouth, Massachusetts; Gilson Road Site in Nashua, New Hampshire; and Tinkham Garage Site in Londonderry, New Hampshire. The Company has not had sufficient time to investigate its involvement in these sites, but on the basis of the information provided by EPA it appears that its exposure, if any, is limited.

<u>Other</u>

In December 1982, the Company was sued in the Superior Court, State of Connecticut in a matter entitled <u>James F. MacLachlan v. Raymark Corporation</u>. The plaintiff, a former officer of the Company, seeks in excess of $100,000 for stock appreciation rights which were denied to him in 1980. While the Company believes it has valid defenses, it is continuing settlement discussions with the plaintiff.

The Company believes that the eventual disposition of the civil rights, commercial, environmental and other matters described immediately above should not have any material adverse effect on the Company's financial conditi or future operations.

Shareholder Litigation

In June 1985, Echlin brought suit in the Superior Court of the State of Connecticut in an action entitled Echlin Inc. v. Raymark Corporation et al. alleging certai improprieties in the conduct of Registrant's 1985 Annual Meeting of Shareholders. The Registrant countersued in United States District Court for the District of Connectic in an action entitled Raymark Corporation v. Echlin Inc. a Frederick J. Mancheski alleging violations of the federal securities laws and seeking to enjoin Echlin from voting certain proxies claimed by the Registrant. Registrant and Echlin settled the shareholder litigation in March 1986.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDE

None.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Registrant's common stock is traded on the Ne York Stock Exchange under the trading symbol (RAY). As of March 28, 1986, there were 3354 holders of record of the Registrant's common stock.

Information regarding the quarterly high and low sales prices for 1985 and 1984 and information with respec to dividends is set forth in the Consolidated Financial Statements, Part II, Item 8 hereof. Under the terms of various loan agreements, the Registrant is prohibited from paying dividends on its common stock.

Item 6. Selected Financial Data.

FIVE-YEAR REVIEW OF OPERATIONS
(000's omitted, except share data)

	1985	1984	1983	1982	1981
Operating Results					
Continuing operations:					
Net Sales	$112,419	$129,152	$110,326	$130,071	$163,698
Gross profit	14,104	26,460	25,555	26,130	38,845
Operating profit (loss)	(8,661)	2,003	434	(3,916)	9,060
Interest expense	(3,237)	(4,051)	(2,752)	(3,406)	(1,930)
Asbestos-related expenses	(1,127)	(1,616)	(7,287)	(9,077)	(6,416)
Net income (loss) from continuing operations	(18,171)	(3,366)	(11,448)	(13,079)	51
Discontinued Operations:					
Income (loss) from discontinued operations	-	(5,569)	(3,297)	(7,898)	7,703
Income (loss) on disposal	-	(32,996)	3,618	(16,173)	-
Net Income (loss)	$(18,171)	$(41,931)	$(11,127)	$(37,150)	$ 7,754
Per Share of Common Stock					
Continuing operations	$ (6.35)	$ (1.18)	$ (4.15)	$ (4.85)	$ .02
Discontinued operations	-	(13.48)	.12	(8.92)	3.00
Net income (loss)	$ (6.35)	$ (14.66)	$ (4.03)	$ (13.77)	$ 3.02
Balance Sheet					
Total assets	$ 83,524	$106,280	$121,821	$123,761	$182,935
Working capital	5,457	13,007	41,578	41,160	80,702
Long-term debt	23,316	24,513	21,494	8,574	17,027
Total shareholders' equity	$ 3,633	$ 20,024	$ 62,349	$ 71,833	$110,220
Property, Plant and Equipment					
Capital expenditures	$ 3,349	$ 8,385	$ 7,845	$ 10,281	$ 12,230
Depreciation	5,239	5,736	5,290	5,796	6,476
Average Shares					
Outstanding	2,860,806	2,860,806	2,758,606	2,696,860	2,569,220
Dividends	$ -	$ -	$ -	$ .30	$ .85

This Selected Financial Data should be read in conjunction with the consolidated financial statements as set forth on pages 32 to 35.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Continuing Operations

1985 vs. 1984

The Company's loss from continuing operations was $18.2 million or a loss of $6.35 per share in 1985 which w an increase of $14.8 million or $5.17 per share from 1984. Included within the 1985 loss from continuing operations i a restructure charge of $10.9 million or $3.81 per share. The restructure charge is comprised of a write down of certain manufacturing facilities, a write down of certain inventories to their net realizable value, and severance charges relating to senior management termination.

Sales in 1985 were $112.4 million compared with $129.2 million in 1984. The 13% or $16.8 million decline from 1984 included an $6.0 million decline in the wet clut and brake market due to reduced agricultural demand, a $6. million decline in the original equipment manufacturing portion of the dry clutch and brake market due to increase foreign competition, and a $2.0 million decline due to the discontinuation of certain unprofitable products in severa markets.

Gross margins, as a percent of sales, declined fr 20% in 1984 to 13% in 1985. This decline was primarily du to underutilization of the dry clutch and brake manufacturing facilities and the write-off of obsolete inventory. (Refer to Note F). Additionally, start-up cos coupled with environmental compliance costs caused certain plants to operate at less than normal efficiency.

Selling and administrative expenses decreased by $1.7 million compared with 1984. The decrease is the resu of consolidating distribution functions and reduced administration expense. This decrease was partially offse by expenses relating to senior management terminations and increased expenditures in research and development of non-asbestos products in the wet clutch and brake and dry clut and brake businesses.

Interest expense decreased in 1985 compared with 1984 by $.8 million primarily due to reduced mortgage interest relating to the sale of the corporate office facility in Trumbull, Connecticut (refer to Note E), and reduced interest rates on a lower average borrowing base.

Other expenses increased in 1985 compared to 1984 by $5.6 million. The $5.6 million increase included a write-down of manufacturing facilities at the Manheim plant of $5.0 million (refer to Note F), a provision in the amount of $2.0 million for a note, a gain on the sale of the Trumbull, Connecticut corporate office of $3.3 million (refer to Note E) and $.8 million related to shareholder litigation.

Asbestos-related expenses decreased 30% or $.5 million in 1985 compared with 1984 primarily as a result of the reduced lobbying effort as well as reduced costs for outside counsel in connection with insurance litigation. (Refer to Note J.)

<u>1984 vs. 1983</u>

The Company's loss from continuing operations decreased from $11.4 million, or $4.15 per share, in 1983 to $3.4 million, or $1.18 per share, in 1984. Reductions in asbestos-related expenses accounted for $5.7 million of the $8 million improvement in 1984.

Continuation of the economic recovery during 1984 resulted in a sales increase of 17%, or $18.8 million, over 1983 levels. Increased demand for earth-moving, construction, heavy-duty truck and automotive vehicles, particularly in the first half of the year, favorably impacted sales levels. However, a sluggish economy from mid-year slowed the momentum in many markets and caused end-user demand to level off in the second half of 1984. The 17% sales growth can be largely attributed to a 15% increase in physical sales volume. Intense pressure on price increases, caused by excess capacity in the original equipment industry and the extraordinarily strong U.S. dollar, resulted in minimal price increases from 1983.

Operating profits increased $1.6 million from the $.4 million realized in 1983. Improvements in operating profit margins, from .4% of 1983 sales to 1.6% of 1984 sales, were due to cost containment in the area of selling and administrative expenses. These expenses, as a percent of sales, decreased from 23% in 1983 to 19% in 1984.

Gross margins, as a percent of sales, declined from 23% in 1983 to 20% in 1984. This deterioration was due to manufacturing cost increases in the dry clutch and industrial friction material businesses, marginally offset by minimal price increases in the original equipment markets.

Asbestos-related expenses decreased $5.7 million from 1983 as a result of the November 1983 and subsequent interim funding orders of the Circuit Court of Cook County, Illinois. These orders required the Company's insurance carriers to fund substantially all of the defense and liability costs of asbestos litigation. (Refer to Note J).

Interest expense increased $1.3 million from 1983 to 1984 due to increases in borrowing rates and the impact of a full year's additional borrowings in 1984 to finance expanded manufacturing capacity and a new Technical Center in Crawfordsville, Indiana. Provisions in 1983 related to the Australian plant closing accounted for the improvement of $1.4 million in other income in 1984.

Discontinued Operations

Proceeds from the sale of the Brake Systems Division on March 19, 1985 of approximately $50.4 million were predicated on a December 30, 1984 balance sheet. Unde the terms of the agreement, the amount of proceeds was adjusted to reflect the net assets of the Brake Systems Division as of the March 19, 1985 closing date. As a resul of a reduction in net assets during 1985, principally accounts receivable collected by the Company, Echlin Inc. has accepted a $6.5 million note due in 1988 in settlement of this amount. (Refer to Note G).

As part of this transaction, in April 1985, the Company sold its Cheshire, Connecticut distribution center to Echlin for $5.6 million. The proceeds were largely used to reduce debt.

The Company's 1984 financial results included a charge of $37.0 million, or $12.94 per share, for the discontinued operations of its Brake Systems Division. Thi included a $5.6 million loss from 1984 operations and a $31.4 million reserve for the anticipated net loss on the ultimate disposal of the Brake Systems Division. The Company also provided $1.6 million of additional reserves t fund future post-retirement insurance benefits related to previous years' discontinued operation.

During 1983, the Brake System Division operating losses of $3.3 million were offset by a $3.6 million reduction of the charge made in 1982 for the ultimate disposition of the Modulus and Milford Divisions.

Liquidity and Capital Resources

The Company has completed arrangements with its principal lenders to cure all previously existing technical violations of loan covenants and has reached agreement on new covenants which reflect the Company's current financial position. The agreements also provide for a term loan repayment due on February 1, 1986 of approximately $4.9 million to be extended, subject to certain repayments, to February 1, 1988.

The Company has also reached agreement with Echlin to exchange a collateralized note for approximately $6.5 million of accounts payable, which includes accrued interest. This note, less certain repayments totalling $.2 million and $1.5 million in 1986 and 1987, respectively, is due on February 1, 1988. The outstanding balance of the note, subject to certain approvals by the shareholders which will be requested in 1986, is convertible into the Registrant's common stock at a price based on the market price of the Registrant's common stock between April 7 and April 25, 1986.

The Company has received waivers from the Internal Revenue Service for the 1983 and 1984 pension contributions which were originally due respectively in September 1984 and September 1985. These waivers permit the Company to fund approximately $6.2 million, plus accrued interest at 8.5%, over a 15 year period from the date of each waiver.

Future Liquidity

Because of uncertainty in the ultimate outcome of litigation in Illinois, New York and Connecticut regarding the obligations of the Company's insurers, which is described in Item 3, because of uncertainty relating to the recoverability of the coverage provided by an insolvent insurer, because of the possibility of punitive damage awards not covered by insurance and because of the uncertainty as to the number of asbestos-related lawsuits still to be filed and the cost of disposition of all pending and future cases, it is not possible to predict whether the cost of settling and defending existing and future cases will be fully covered by insurance and, if not, what impact excess costs would have on the Registrant's consolidated financial position and results of operations in future years. Under the circumstances, there can be no assurance that the Company will not be required to seek relief under Chapter 11 of the United States Bankruptcy Code at some time in the future. Because of funding arrangements currently in effect for asbestos-related litigation costs, described above, management does not believe such action would be required in 1986.

With the business restructure completed early in 1986, Management believes the Company will generate sufficient cash flows for operations and the sale of non-operating assets to satisfy 1986 debt maturity, working capital and capital spending needs. However, internally generated funds may not be sufficient to meet the 1986 pension contribution requirements if Internal Revenue Service waivers are not granted or any potential federal and/or state tax assessments, asserted to aggregate approximately $4.5 million, for prior years which are currently under review become due. The required contribution for the pension plans in September 1986 will $2.8 million. The Company has permanently suspended the salaried pension plan at year-end 1985 and may terminate t plan in 1986. Such suspension or termination may significiantly reduce the contribution requirements due ir September 1986. In the event such reductions are insufficient, further payment waivers will be sought from the Internal Revenue Service. Should all or a portion of the tax assessments become due in 1986 the Company will pursue any legal recourse available to it to contest such assessments or will seek extended payment terms. Manageme believes that incremental borrowing capacity may be available from current creditors and/or from new sources.

Impact of Inflation

The Company's business is subject to the impact c inflation. However, relatively low levels of inflation during 1985, 1984 and 1983 had minimal impact on the Company's earnings.

The Company is confident that it can mitigate the effects of inflation by increased production efficiencies and lower raw material prices as a result of price competition among its various suppliers.

INDEX TO FINANCIAL STATEMENTS

Item 8. Financial Statements and Supplementary Data
RAYMARK CORPORATION
CONSOLIDATED BALANCE SHEETS (000's omitted, except share data)

Fiscal Year	1985	
ASSETS		
Current assets		
Cash	$ 2,515	$
Restricted Cash	2,559	
Trade accounts receivable, less allowance of $716 for 1985 and $418 for 1984	14,952	1
Inventories	22,021	3
Other current assets	2,931	
Net assets of discontinued operations	-	
Total current assets	44,978	6
Property, plant and equipment	95,939	9
Less accumulated depreciation	64,974	5
Net property, plant and equipment	30,965	3
Investment in Affiliate	4,703	
Other assets	2,878	
Total assets	$83,524	$10
LIABILITIES		
Current liabilities		
Current portion of long-term debt (including $200 due related party)	$ 5,233	$
Accounts payable	8,039	1
Accrued liabilities	26,249	2
Total current liabilities	$39,521	$ 4
Long-term debt due related party	6,118	
Long-term debt	17,198	2
Other long-term liabilities	17,054	1
Total liabilities	$79,891	$ 8
COMMITMENTS & CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Capital stock		
Cumulative preference stock, no par value 800,000 shares authorized, none issued & outstanding		
Common stock, par value $12.50-- 4,000,000 shares authorized 2,860,806 shares issued & outstanding	35,760	3
Capital surplus	19,099	1
Deficit	(50,944)	(3
Cumulative translation adjustment	(282)	(
Total shareholders' equity	3,633	2
Total liabilities and shareholders' equity	$83,524	$10

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
(000's omitted, except share data)

Fiscal Year	1985	1984	1983
Net sales	$ 112,419	$ 129,152	$ 110,326
Cost of sales	98,315	102,692	84,771
Gross profit	14,104	26,460	25,555
Selling and administrative expenses	22,765	24,457	25,121
Operating profit (loss)	(8,661)	2,003	434
Income from joint venture	1,263	988	667
Interest expense	(3,237)	(4,051)	(2,752)
Asbestos-related expense	(1,127)	(1,616)	(7,287)
Other expense, net	(5,981)	(350)	(1,785)
Loss from continuing operations before income taxes	(17,743)	(3,026)	(10,723)
Income tax provision	428	340	725
Loss from continuing operations	(18,171)	(3,366)	(11,448)
Discontinued operations, net of income taxes			
Loss from operations	-	(5,569)	(3,297)
Gain (loss) on disposal	-	(32,996)	3,[illegible]
Income (loss) from discontinued operation	-	(38,565)	321
NET LOSS	$ (18,171)	$ (41,931)	$ (11,127)
Income (loss) per share:			
Continuing operations	$ (6.35)	$ (1.18)	$ (4.15)
Discontinued operations	-	(13.48)	.12
Net loss	$ (6.35)	$ (14.66)	$ (4.03)
Average shares outstanding	2,860,806	2,860,806	2,758,606

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION (000's on

Fiscal Year	1985	1984	198
CONTINUING OPERATIONS			
Net loss	$(18,171)	$(3,366)	$(11,44
Items not affecting funds:			
Depreciation & amortization	5,239	5,736	5,29
Plant impairment	5,036	-	
Loss on plant disposal	-	-	1,30
Increased investment in joint venture	(2,003)	(929)	(39
Provision for note receivable	1,957	-	
	(7,942)	1,441	(5,25
Changes in working capital:			
Trade accounts receivable	(604)	4,495	(3,74
Inventories	10,689	1,016	(2,39
Accounts payable	(7,278)	8,232	(1,57
Accrued liabilities	(1,681)	1,602	(2,49
Other	2,946	(328)	2,17
	4,072	15,017	(8,03
FINANCING AND INVESTMENT ACTIVITIES			
Debt:			
Increase (decrease) in current portion	(204)	(2,310)	(3,87
Increase (decrease) in long-term borrowings	(7,315)	3,019	12,92
Long-term debt due related party	6,118	-	
Restricted cash	(2,559)	1,924	(1,92
Waived pension contribution	2,993	1,960	
Foreign currency translation	1,780	(394)	(66
Decrease in treasury stock	-	-	1,79
	813	4,199	8,25
Capital expenditures	(3,349)	(8,385)	(7,84
Reductions in liabilities for plant closings	-	(793)	
Other, net	165	2,733	3,15
Funds provided (used) by continuing operations	(6,241)	14,212	(9,72
DISCONTINUED OPERATIONS			
Net loss	-	(5,569)	(3,29
Items not affecting funds:			
Depreciation	-	2,304	2,56
Funds used by discontinued operations	-	(3,265)	(73
Decrease(increase) in net assets of discontinued operations, including gain or loss on disposal	3,338	(7,823)	9,92
Net change in cash	$ (2,903)	$ 3,124	$ (54

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(000's omitted, except share data)

	Number of Shares Outstanding	Common Stock	Capital Surplus	Retained (Deficit) Earnings	Cumulative Translation Adjustment	Treasury Stock
Balance, January 2, 1983 as restated	2,718,000	$35,760	$19,099	$ 21,407	$(1,512)	$(2,921)
Net Loss for 52 weeks ended January 1, 1984	-	-	-	(11,127)	-	-
Treasury shares issued to employee benefit plans	142,806	-	-	(1,122)	-	2,921
Foreign currency translation adjustment	-	-	-	-	(156)	-
Balance, January 1, 1984 as restated	2,860,806	35,760	19,099	9,158	(1,668)	-
Net Loss for 52 weeks ended December 30, 1984	-	-	-	(41,931)	-	-
Foreign currency translation adjustment	-	-	-	-	(394)	-
Balance, December 30, 1984	2,860,806	35,760	19,099	(32,773)	(2,062)	-
Net Loss for 52 weeks ended December 29, 1985	-	-	-	(18,171)		-
Foreign currency translation adjustment	-	-	-	-	1,780	-
Balance, December 29, 1985	2,860,806	$35,760	$19,099	$(50,944)	$ (282)	$ -

The accompanying notes are an integral part of these statements.

RAYMARK CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(000's omitted, except share data)

NOTE A - Summary of Significant Accounting Policies

1. Principles of Consolidation

The consolidated financial statements reflect the accounts of Raymark Corporation, Raymark Industries, Inc., and its subsidiaries. Significant intercompany balances ar transactions have been eliminated in consolidation. The Daikin-R/M 50% owned incorporated joint venture is accounte for by the equity method.

2. Fiscal Year

The Company reports on a 52-53 week fiscal year. The last three fiscal years ended on December 29, 1985, December 30, 1984 and January 1, 1984 respectively.

3. Inventories

Inventories are stated at the lower of cost or market with cost determined using the FIFO (first in, first out) method.

4. Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and amortization. Depreciation and amortization is based on the estimated service life of the related asset and is provided using the straight-line method for assets acquired after 1980 and accelerated methods for previously acquired assets. Maintenance and repairs that do not increase the useful lif of an asset are expensed as incurred.

5. Employee Benefits

The Company has several pension plans covering substantially all employees. Pension expense includes current service costs and the amortization of prior service costs over 40 years.

NOTE A - Summary of Significant Accounting Policies (continued)

The Company also provides certain health care and life insurance benefits for its active and retired employees. The cost of providing these benefits is generally charged to operations as incurred.

6. Income Taxes

Investment tax credits are recognized as reductions of income tax expense in the year utilized.

The Company does not provide income taxes on the accumulated earnings considered permanently reinvested in foreign subsidiaries. Accumulated undistributed earnings at the end of fiscal 1985 amounted to $5,531.

7. Insurance

Except for catastrophic loss, the Company is self-insured for worker's compensation. Costs are accrued based on an actuarial estimate of the ultimate expense.

8. Net Loss Per Share

Net loss per common share are computed based on the weighted average number of common shares outstanding during the year.

9. Reclassifications

Certain balance sheet items relating to components of cash and other current assets have been classified differently in the 1985 Financial Statements than in 1984. The effect of this classification was to decrease current assets and current liabilities by $3.5 million, respectively, in the 1985 Consolidated balance sheet.

NOTE B - Restricted Cash

In August 1985, Echlin garnisheed a cash investm of $2,000 to partially collateralize an amount payable resulting from the sale of the Brake Systems Division. Th amount at December 29, 1985 of $2,050, which includes accrued interest, is included as restricted cash in the accompanying 1985 balance sheet. In April 1986, Echlin released the $2,050. (Refer to Note H.)

In November 1985, the Company established a trus fund for funding the closure and post-closure costs for hazardous waste sites in accordance with the requirements the Resource Conservation and Recovery Act. The amount a December 29, 1985 of $509, which includes accrued interes is included in restricted cash in the accompanying 1985 balance sheet.

NOTE C - Inventories

Inventories at FIFO consist of the following:

Fiscal year	1985	1984
Raw materials	$ 5,141	$ 6,770
Work in process	7,703	11,848
Finished goods	9,177	14,092
	$ 22,021	$ 32,710

As a result of the disposition of the Company's Brake Systems Division which constituted 61% of consolidated LIFO inventories at December 30, 1984, reduced inventory levels and declining prices in the Company's remaining businesses in 1984, the Company changed its cost method for inventories to the first-in, first-out (FIFO) method during the fourth quarter of 1984. The last-in, first-out (LIFO) method had been used in prior years for substantially all inventories. Management believes the FIFO method will result in a better matching of current costs and revenues.

The FIFO method of accounting has been applied retroactively, and financial statements for years prior to 1984 have been restated. The impact of the restatement on net loss and net loss per share was:

NOTE C - Inventories (continued)

	1984		1983	
	Net Loss	Net Loss Per Share	Net Loss	Net Loss Per Share
Continuing operations	$ 291	$ 0.10	$ (890)	$ (0.32)
Discontinued operations	5,660	1.98	532	0.19

Substantially all of the Company's inventories ar pledged as collateral. (Refer to note G.)

NOTE D - Property, Plant and Equipment

Property, plant and equipment, at cost (refer to Note F), is summarized as follows:

	1985	1984	Estimated Useful Lives (Years)
Land	$ 551	$ 523	-
Buildings and improvements	26,172	25,841	5-40
Machinery and equipment	67,665	61,585	3-20
Capitalized leases	1,026	1,091	See below
Construction in progress	525	2,042	-
	95,939	91,082	
Less accumulated depreciation and amortization	64,974	54,032	
Net property, plant and equipment	$ 30,965	$ 37,050	

Capitalized leases are amortized over the economic life remaining or the term of the leases, whichever is shorter.

Substantially all of the Company's property, plant and equipment is pledged as collateral (refer to Note G).

Certain property, plant and equipment with a net book value of $1,318 at December 29, 1985 was under lease to a related party during 1985.

Maintenance and repairs charged to expense amounted to $8,866, $8,345 and $5,397 for 1985, 1984 and 1983, respectively.

NOTE E - Property Sold in 1985

In August 1985, the Company completed the sale ar partial leaseback of its headquarters property in Trumbull Connecticut. The property, which had a net book value of $2,500 and was classified at December 30, 1984 as a component of other current assets, was sold for $8,050.

The proceeds from the sale were used in part to retire the associated mortgage on the facility and reduce the borrowings under the Revolver.

The Company has leased back approximately 20,000 square feet of this facility for 5 years and has agreed t(provide a rental subsidy until the facility achieves an 8(occupancy. Accordingly, the Company has deferred recognition of $1,300 of the aggregate gain and will amortize such over the lease term and rent subsidy period

In March 1985, the Company sold undeveloped real estate adjacent to the Trumbull facility for $550. The resulting gain of $435 is included in other income and expense.

NOTE F - Restructuring

In the third quarter of 1985, the Company implemented a restructuring program to reduce operating costs, dispose of underutilized assets, and to recognize an impairment in the carrying value of a production facility a Manheim. Accordingly, the Company recognized a charge of $10,900 or $3.81 per share. This charge consists of a write-down of certain manufacturing facilities and relate inventories to their estimated net realizable value amounting to $5,000 and $3,400 respectively. Additionall the Company recorded a charge of $2,500 for accrued termination benefits resulting from senior management changes and administrative reductions. These charges are included in the following captions in the consolidated statement of operations: other expenses $5,000; cost of sales $3,400; and selling and administrative expenses $2,500.

NOTE F - Restructuring (continued)

As part of the restructuring program, the Company has reduced compensation and benefit arrangements for salaried personnel.

Further, in October 1985 and January 1986, the Company renegotiated its respective union contracts at the Marshville and Manheim facilities which will result in reduced labor and benefit costs.

NOTE G - Debt

Borrowings consist of the following:

Fiscal Year	1985	1984
Revolving credit agreement	$ 13,750	$ 15,285
Industrial revenue bonds	10,280	14,376
Cash collateral account	(10,000)	(10,000)
Financial institutions	5,296	7,331
Notes payable due related party	6,318	-
Notes payable to banks	2,322	1,939
Capitalized lease obligations	583	561
Other	-	458
Total borrowings	28,549	29,950
Less current portion (including $200 to related party in 1985)	5,233	5,437
Long-term debt	$ 23,316	$ 24,513

The Revolving Credit Agreement (the "Revolver"), a amended in April 1986, provides for borrowings of $12,810 through February 1, 1988, subject to quarterly payments in 1986 of $525, $630 and $630 commencing June 15, 1986, and $675 thereafter. Borrowings will be further reduced by $80 from the proceeds of the sale, if completed, of a non-operating asset.

The Revolver bears interest at the rate of prime plus 1% and additionally requires a fee in lieu of compensa ting balances equivalent to 7.5% of the prime rate. At December 29, 1985, the effective rate of interest on the Revolver was 11.2%. The agreement is collateralized by sub stantially all the Company's domestic assets.

At December 28, 1985, certain violations of financial covenants and other provisions of the Revolver were permanently waived by the lenders and the April 1986 amendment cured any violations which existed on December 28, 198

NOTE G - Debt (continued)

and established new financial covenants all of which were met at December 29, 1985. The most restrictive provisions of these covenants requires maintenance of (1) a current ratio of .85, (2) interest coverage of 125% and (3) net worth of $3,300. The Company expects to be able to satisfy these covenant requirements for 1986.

In July 1983, the Company sold $9,525 of tax-exempt industrial revenue bonds (the "Bonds") which mature on July 1, 1993 and bear floating interest at 68% of the prime rate or approximately 6.5% at December 29, 1985. The Bonds are collateralized by the Crawfordsville facility and equipment and a $10,000 letter of credit. In November 1985, the Company did not replace the letter of credit required under the Bonds and in January 1986, the bondholders exercised their put option to the Company. Repayment was made from a restricted cash collateral account of $10,000 maintained for that purpose. The Bonds by their terms may be remarketed through July 1986, although the Company is uncertain whether a market for the Bonds currently exists or will be available in the future and whether the proceeds of any such sale will be available to the Company in view of certain covenants with its lenders.

In July 1983, the Company borrowed $10,000 under a term loan to support the letter of credit and associated cash collateral account for the bonds. Repayments of principal through direct payment and interest proceeds from the cash collateral account reduced the outstanding balance to $4,853 which was due on February 1, 1986. As of February 1, 1986 the lender under the Company's Term Loan Agreement agreed to restructure an otherwise due repayment of this amount. An agreement dated April 11, 1986 extends the maturity of the term loan to February 1, 1988. Repayments are $166 in the first quarter of 1986 and $250 quarterly through December 1, 1987 and a balloon payment of $2,936 on February 1, 1988 thereafter. The term loan, as amended, bears interest at prime plus 1-3/4%. At December 29, 1985, the effective rate was 11.0%. The loan is collateralized by the Crawfordsville facility and equipment, the Stratford facility and, on a subordinate basis, certain assets pledged under the Revolver.

NOTE G - Debt (continued)

In April 1986, Echlin agreed to accept a $6,451 nc representing the principal and accrued interest relating tc Brake Systems Division disposition (refer to Note H). The matures on February 1, 1988 and bears interest at the prime less 1/2% and is collateralized on a subordinate basis, by stantially all of the Company's domestic assets which are pledged under the Revolver. Repayments of $50 per quarter commencing in June 1986 and $375 per quarter in 1987 are required. Echlin has an option under the note at any time, subject to certain approvals of the shareholders at the 198 annual meeting, to convert the outstanding balance of the r into the Company's common stock at a price which shall be t lesser of (i) $12.425 per share of Common Stock or (ii) the average of the closing price on the New York Stock Exchange the Company's Common Stock for each of the ten business day during the period from April 14, 1986 through April 25, 198

The Revolver, the term loan, and the note to Echli also collateralized by all of the proceeds from the Company reimbursement claims against its asbestos litigation insura carriers.

Other notes payable of $2,322 include a loan payab from the Company's West German subsidiary to a bank for $1, of which $932 is current. The remaining $709 long term poi consists of separate West German loans that bear a fixed interest rate ranging from 4.0% to 7.75%. The subsidiary h short-term credit lines with three banks aggregating approximately $1,100 which were unused at December 29, 1985 Such funds are not available for the Company's domestic operations. All loans of the West German subsidiary are collateralized by the subsidiary's land and buildings and repayment is generally due in annual installments between 1 and 1995. The remaining $681 in other notes payable consis a mortgage loan due on a Canadian property. In January 198 the Company amended the term of this loan to cure a technic violation. The Company is now in compliance with this mort loan which matures on March 17, 1988.

Under the terms of various loan agreements, the Cc is prohibited from paying dividends on its common stock.

Aggregate principal payments on borrowings after I ber 29, 1985 are: 1986, $5,233; 1987, $5,424; 1988, $17,2· 1989, $317; 1990 and thereafter, $327.

NOTE G - Debt (continued)

At December 30, 1984, certain financial covenants of the Revolver were waived by the Company's lenders through April 30, 1985. An April 30, 1985 amendment cured any violation of such financial covenants which existed at December 30, 1984.

NOTE H - Discontinued Operations

On March 19, 1985, in accordance with a plan of disposal approved by the Board of Directors in 1984, the Company sold substantially all the assets, subject to certain liabilities, of the Brake Systems Division for approximately $50,400 to a subsidiary of Echlin. Proceeds from the sale included approximately $40,900 in cash and a $9,500 reduction in notes payable to Echlin. The cash proceeds were used to reduce outstanding debt. The sale resulted in a loss of approximately $31,000 which includes operating losses through date of disposition of approximately $3,000, accrual for certain employee benefit liabilities of $5,600 and certain other costs associated with the disposal of $3,600.

The amount of proceeds was adjusted to reflect the net assets of the Brake Systems Division as of March 1985. As a result of these reductions in net assets during 1985, principally accounts receivable collected by the Company, Raymark now owes a note payable to Echlin finalized in April 1986 for $6,451 which includes accrued interest, and is included in the accompanying 1985 balance sheet as long term debt except for the portion due of $200 in 1986 which is included in current portion of long term debt. (Refer to Note G.)

As part of this transaction, in April 1985, the Company sold its Cheshire, Connecticut distribution center to a subsidiary of Echlin for $5,600. The proceeds were used largely to reduce debt. The Company also agreed to lease to subsidiaries of Echlin the Company's Peterborough, Canada, manufacturing facility and a significant portion of the Stratford, Connecticut, facility for a period of three years. Such leases also provide options to purchase these facilities at their fair market value.

In 1984, additional reserves of approximately $1,600 were established to provide for post-retirement

NOTE H - Discontinued Operations (continued)

benefits retained by the Company relating to the August 19 sale of the Modulus Fastener and Milford Rivet and Machine operations.

In August 1983, the Company sold the combined operations of its Modulus Fastener and Milford Rivet and Machine Divisions. The ultimate sale resulted in a gain o disposal in discontinued operations of $3,618 in the accompanying 1983 consolidated statement of operations.

In 1983, net income was charged $1,300 for estimated losses on the liquidation of the Company's Australia operations completed in 1984. Of the original $4,000 reserve established in 1983 for the restructure of the Stratford dry brake business $2,166 was reclassified to di continued operations in 1984.

The consolidated financial statements have been r classified to report separately the operating results and net assets of the Brake Systems Division and the Modulus a Milford Operations as discontinued operations. Net sales relating to these divisions were $23,516, $133,691 and $163,754 for 1985, 1984 and 1983, respectively. Net asset of discontinued operations at December 30, 1984 were as follows:

Trade, accounts receivable, net	$ 27,719
Inventories	46,822
Property, plant and equipment, net	13,430
Accounts payable	(11,680)
Accrued liabilities	(21,030)
Debt	(49,909)
Other	(2,014)
Net assets of discontinued operations	$ 3,338

NOTE I - Related Party Transactions

On October 12, 1984, Echlin acquired 745,000 shares, currently 25%, of the Company's common stock from Hi-Shear Industries, Inc. The Chairman, President and a Vice-President of Hi-Shear are members of the Company's Board of Directors.

In March 1985, as described in Note H, the Company sold its Brake Systems Division to a subsidiary of Echlin.

Echlin was a major supplier of products for resale by Raymark's Brake Systems Division. Purchases from Echlin were approximately $6,600 and $28,000 in 1985 and 1984, respectively.

During 1985, several Echlin companies were customers of Raymark. The total sales to these companies were approximately $5,200. The related accounts receivable amount of approximately $1,000 is reflected in trade accounts receivable in the accompanying 1985 Balance Sheet.

The Company incurred $315 and $1,300 of interest expense related to notes due to Echlin in 1985 and 1984, respectively. Notes payable to Echlin were $6,318 and $9,619 at year end 1985 and 1984, respectively. (Refer to Note H.) The outstanding note payable to Echlin for $6,318 results from an adjustment to the purchase price of the Brake Systems Division. (Refer to Note H.) The $9,619 balance at year end 1984 is reflected in net assets of discontinued operations in the accompanying 1984 balance sheet.

Other transactions include charges for rent and utilities to Echlin of $2,051 and a computer usage expense from Echlin of $563. These items are included as a receivable from Echlin of $1,081 and a payable to Echlin of $514 in the accompanying 1985 Balance Sheet as part of other current assets and accrued liabilities, respectively. In April 1986, the corresponding receivable and payable between Echlin and the Company was settled in cash.

NOTE J - Litigation
(000's not omitted in this Note J)

Since 1971, when the first claim was filed, the Company has been a defendant or codefendant in lawsuits alleging injury and/or death from exposure to asbestos fibers in the air. As of December 31, 1985 there were 22,543 lawsuits (representing claims by 27,499 plaintiffs) pending, compared with 18,664 and 14,936 as of December 31 1984 and 1983, respectively. 9,400 new lawsuits (representing claims by 10,750 plaintiffs) were filed in 1985, compared with 6,059 and 5,308 in 1984 and 1983, respectively. As of December 31, 1985, 12,342 cases (representing 13,123 plaintiffs' claims) have been terminated by settlements, dismissals, summary judgments o trial verdicts. Since the beginning of the litigation and through December 31, 1985, settlements have averaged approximately $6,075 per claim, exclusive of defense fees, and disposition costs per claim, including claims disposed of for no cost and exclusive of defense fees, have average approximately $5,600. Defense fees typically are less tha 50% of settlement costs. In eleven cases, punitive damage have been awarded; five have since been settled, four are currently on appeal and one was reversed and judgment entered for the Company.

On October 10, 1985, Judge Robert M. Parker certified a voluntary class action of 893 cases pending in the United States District Court for the Eastern District Texas, which class action order was appealed by the Compan The United States Court of Appeals for the Fifth Circuit affirmed the district court's class action order on February 5, 1986 and trial of claims by thirteen representative plaintiffs commenced March 10, 1986. In th face of a possible verdict for unacceptably high amounts including punitive damages, and unable, as of March 18, 1986, to procure a settlement of the Texas class action up terms which did not threaten precipitous and unanticipated exhaustion of insurance funds available to the Company und the October 1984 funding order, hereinafter discussed, the Company's Board of Directors, on March 18, 1986, conditionally authorized the filing of a petition for reli under Chapter 11 of the United States Bankruptcy Code. Su authorization provided specifically that the petition be filed in the event a settlement satisfactory to the Compan could not be effected; on March 19, 1986, the litigation w settled upon terms which alleviated the threat of imminent

NOTE J - Litigation (continued)

exhaustion of available insurance, thus obviating the necessity of filing the Chapter 11 petition.

The Company has been named as a defendent, together with other companies, in a series of property damage cases in which the plaintiffs, primarily school boards and other public entities, seek damages for removal of asbestos-containing products in buildings. As of December 31, 1985, the Company was named as a defendent in 82 such cases as compared to 43 cases as of December 31, 1984. Two of those 82 cases were dismissed without prejudice against the Company in 1985. The property damage cases filed against the Company are in their early stages and it is not possible to predict their outcome at this time.

Between 1941 and 1982, the Company purchased, in varying amounts and from a number of carriers, products liability insurance coverage totaling approximately $395 million. Prior to November 14, 1983, conflicts among the carriers relating to responsibility for coverage limited the Company's access to this pool of coverage and forced the Company to absorb approximately 39% of the costs associated with asbestos-related litigation. Such conflicts are the subject of a Declaratory Judgment Action commenced in 1978 involving the Company and its primary and certain of its excess insurance carriers. In September 1983 and June 1984, the Court issued rulings -- currently on appeal -- which, if sustained, should, subject to certain contingencies referred to hereinafter, provide the Company broad access to its insurance pool. Upon resolution of all issues in the litigation, the Company will be entitled to reimbursement of more than $20 million of costs previously expended by it, together with interest.

In November, 1983, February, 1984, July, 1984 and October, 1984, the Court entered interim funding orders requiring the Company's primary insurance carriers, and then its primary and first level excess insurance carriers, to pay, on behalf of the Company, substantially all liability and defense costs associated with asbestos-related litigation. The October 1984 funding order will continue to provide funding of such costs until exhaustion by any first-level excess carrier of its limits.

NOTE J - Litigation (continued)

Based on the above, the Company will not accrue the liability and defense costs it would have otherwise b forced to absorb or for which it might be liable if the appeal is determined adversely to the Company. Nor has Company accrued for any reimbursement from insurance carriers of asbestos-related litigation costs previously paid by the Company.

One of the Company's second level excess carrie Lumbermens Mutual Casualty Company, has brought suit in federal court in Connecticut contesting coverage for asbestos-related claims. Another of the Company's secon level excess carriers, Transit Casualty Company, was declared insolvent in December 1985. The Lumbermens and Transit second level policies provided coverage of $10 million and $12 million, respectively, out of a total of million of second level coverage purchased by the Compan

Federal Insurance Company, one of the Company's primary level insurance carriers, has been defending the asbestos-related property damage lawsuits on behalf of t Company under a reservation of rights to assert that it not obligated to provide coverage. Federal's claims relating to coverage are at issue in the Cook County, Illinois litigation and also in a separate federal court action brought by Federal in the Southern District of Ne York.

The Company's aggregate unused limit of indemni insurance for the period 1941 to 1982 is, as of December 1985, approximately $310 million, and is, as of March 31 1986, approximately $285 million. Under the October 198 funding order, approximately $55 million as of December 1985, and approximately $30 million as of March 31, 1986 first-level excess insurance remained available. Based prior experience and based upon the determination of the Company, in March 1986, to severely restrict the settlem of large numbers of cases, the Company believes that the insurance funds remaining available under the October 19 order will not be exhausted before early 1987. The Comp believes that, prior to exhaustion of such insurance fun and the consequent expiration of such funding order, it arrange continued funding involving its second level of excess insurance carriers for substantially all liabilit and defense costs of underlying asbestos litigation.

NOTE J - Litigation (continued)

However, because of uncertainties relating to the cost of disposing of cases, the liquidation of Transit Casualty Company and the litigation in Connecticut involving Lumbermens Mutual Casualty Company, uninterrupted funding of substantially all such costs is not assured. Interruption in funding for substantially all such costs would severely and immediately impact the Company's liquidity. Because of the uncertainty of the ultimate outcome of the Company's insurance litigation, because of the uncertainty relating to the Transit Casualty Company coverage, because of the possibility of punitive damage awards not covered by insurance, and because of the uncertainty as to the number of asbestos-related lawsuits still to be filed and of the cost of disposition of cases, it is not possible to predict the cost after insurance recoveries of settling and defending existing and future cases or the impact thereof on the Company's consolidated financial position and results of operations in future years. Under the circumstances, there can be no assurance that the Company will not be required to seek relief under Chapter 11 of the United States Bankruptcy Code at some time in the future. Because of funding arrangements currently in effect for asbestos-related litigation costs, described above, management does not believe such action would be required in 1986.

Other legal proceedings pending against the Company include a discrimination claim by a discharged employee, litigation concerning the sale of facilities, and a number of miscellaneous product liability, commercial, and environmental proceedings. In management's opinion, the eventual disposition of the matters referred to in this paragraph will have no material adverse effect on the Company's consolidated financial position and results of operations.

In addition to the matters discussed above, refer to Part I, Item 3 for additional information relating to legal proceedings.

NOTE K - Income Taxes

At December 29, 1985, the Company had net operating loss carryforwards approximating $102,000 and investment tax credit carryovers approximating $2,500. The net operating loss carryforwards for tax purposes are significantly less

NOTE K - Income Taxes (continued)

as a result of timing differences primarily related to the provisions for discontinued operations, the provision for writedown of the Manheim manufacturing facility, pension e: pense which was not funded, offset, in part, by the change in 1984 from the last-in, first-out method of inventory valuation to the first-in, first-out method. The net oper. ting loss carryforwards and investment tax credit carryove will begin to expire in 1992 and 1989, respectively.

The Company's federal and state income tax return: for the years 1978 to 1982 have been examined by the Internal Revenue Service and various State taxing authoritie: resulting in certain claims being assessed against the Company. In the opinion of management, the Company has adequate reserves to cover any resulting assessments. Should all or a portion of the tax assessments become due : 1986 the Company will pursue any legal recourse available it to contest such assessments or will seek extended payme: terms.

Tax expense for the three years presented consist primarily of investment tax credit recapture, minimum stat taxes, and a foreign provision with respect to the Company German subsidiary.

NOTE L - Retirement Benefit Plans

The Company sponsors several defined benefit retirement plans which cover substantially all domestic employees. Continuing operations expense for these plans was $2,492 in 1985, $2,195 in 1984 and $2,053 in 1983. A comparison of accumulated plan benefits and plan net asset of the Company's defined benefit plans, determined at January 1, 1985 and January 1, 1984 is presented below.

NOTE L - Retirement Benefit Plans (continued)

	1985	1984
Actuarial present value of accumulated plan benefits:		
Vested	$59,615	$56,285
Nonvested	2,506	2,769
Total Benefits	62,121	59,054
Net assets available for benefits	57,325	58,519

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8.5%, except for pre-1982 retiree benefits funded by a dedicated bond portfolio on which the rate is 14%.

The Company obtained a waiver from the Internal Revenue Service for the 1984 pension contribution of $2,993, of which $2,121 relates to continuing operations. The Company will fund this amount plus accrued interest at 8.5% over the next 15 years.

The Company also obtained a waiver from the Internal Revenue Service for the 1983 contribution of $3,163, of which $1,960 relates to continuing operations. The first of fifteen annual installments was paid in September 1985. The remaining balance of $3,051 plus accrued interest at 8.5% will be funded over the remaining 14 years.

In December 1985, the Company permanently suspended the salaried pension plan, which will significantly reduce the pension expense in subsequent years. If the Company determines in conjunction with the 1986 actuarial report that the plan is fully funded based upon purchase of annuity contracts, the plan will be terminated. In such event, 1983 and 1984 waived contribution requirements will be significantly reduced. The Company anticipates that the salaried pension plan will be replaced in 1986 with a defined contribution plan.

NOTE L - Retirement Benefit Plans (continued)

Also in December 1985, the Company terminated an overfunded plan for the Marshville hourly employees and anticipates replacing it with a similar plan.

As described in Note H, the Company sold its Brake Systems Division in March 1985. In connection with the sal of the Brake Systems Division the Company agreed to fund by March 1986 the total benefits of each employee transferred to the purchaser. In March 1986, the amount of these benefits had not yet been finally determined by the Company's actuary; however, it is anticipated that the pension plan assets will be sufficient to fund the benefits of transferred employees. The Company has, pending completion of the actuaries report, requested an extension of the funding.

The Company also provides certain postretirement life insurance and medical benefits. These benefits and similar benefits for active employees are provided through an insurance company whose premiums are based on the benefits paid during the year. The cost of providing these benefits for active and retired employees is generally expensed as paid and was $3,636 and $5,148 in 1985 and 198 respectively. The cost of providing these benefits for 1,139 retirees in 1985 and 1,203 retirees in 1984 is not separable from the cost associated with similar benefits f 1,366 active employees in 1985 and 1,934 in 1984.

NOTE M - Employee Stock Options

The Company's 1980 Non-Qualified Stock Option Plan, as amended in 1984, provides for the grant of options for up to 600,000 shares of stock and accompanying appreciation rights. The Company grants both non-qualified and incentive stock options. In general, options granted under the Plan are at 100% of the fair market value on grant date or par value, whichever is higher. Options are exercisable at the cumulative rate of 20% a year beginning one year from the date of grant, except for 50,000 options granted in 1979, options granted in 1985 all of which are exercisable one year from grant, and all incentive stock options which are exercisable one year from grant. All options expire 10 years after grant. The options granted in 1985 at a price below par value of $12.50 per share are subject to shareholder approval of a reduction in the par value of the Registrant's common stock.

Changes in stock options for the three-year period ended December 29, 1985, are as follows:

Period	Option Price Per Share ($)	Options Outstanding
January 2, 1983	12.50 to 28.38	211,850
Granted	12.50 to 12.75	61,325
Cancelled	12.50	(13,700)
Exercised		--
January 1, 1984	12.50 to 28.38	259,475
Granted	12.50 to 14.50	77,900
Cancelled	12.50 to 28.38	(39,850)
Exercised		--
December 30, 1984	12.50 to 28.00	297,525
Granted	11.125	229,474
Cancelled	12.50 to 28.00	(72,185)
Exercised		--
December 29, 1985	11.125 to 28.00	454,814

NOTE M - Employee Stock Options (continued)

There were 142,904 options exercisable at December 29, 1985; options exercisable at December 30, 1984, and January 1, 1984, were 160,941 and 123,958, respectively. A December 29, 1985, and December 30, 1984 the Company had 84,686 and 241,975 shares, respectively, available for the grant of options.

NOTE N - Commitments and Contingencies

Rental expenses amounted to $1,632 in 1985, $1,61[illegible] in 1984, and $1,488 in 1983. The approximate minimum renta commitments under non-cancellable leases at December 29, 1985 were as follows: 1986, $942; 1987, $843; 1988, $740; 1989, $557; and 1990, $388.

An employment agreement with a former executive providing for certain benefits was settled in March 1986. The aggregate amount of the settlement approximating $2,00[illegible] has been accrued at December 29, 1985 in the accompanying balance sheet.

On November 4, 1985, the Company established a trust fund of approximately $500 to assure funding of closure and post-closure costs for hazardous waste sites in accordance with the requirements of the Resource Conservation Recovery Act. Prior to this date, the Company was not in compliance with the financial requirements of th Act and may be subject to substantial penalties as a result No claim for such penalties has been asserted and the amou of such penalties, if any, is not currently determinable.

The Company has minimum future rentals on non-cancellable leases as of December 29, 1985 aggregating $1,859 of which $1,450 is leased to Echlin. Rental income to the Company from these leases after December 29, 1985 is as follows: 1986, $742; 1987, $779; 1988, $266; 1989, $36 1990, $36.

NOTE O - Supplementary Financial Statement Detail

Fiscal Year	1985	1984
ACCRUED LIABILITIES		
Taxes	$ 4,784	$ 5,078
Reserve for discontinued operations	3,505	7,907
Wages and related taxes	3,590	3,106
Pensions	2,850	2,045
Accrued severance	1,973	-0-
Workers' compensation	2,540	3,738
Other	7,007	6,056
	$ 26,249	$ 27,930

Fiscal Year	1985	1984
OTHER LONG-TERM LIABILITIES		
Reserve for discontinued operations	$ 7,110	$ 8,345
Long-term pensions	8,010	2,622
Other	1,934	2,092
	$ 17,054	$ 13,059

Fiscal Year	1985	1984	1983
OTHER INCOME (EXPENSES) NET			
Interest income	$ -	$ 225	$ 273
Gain on sale of non-operating assets	3,770	-	-
Provision for note receivable	(1,957)	-	-
Plant impairment	(5,036)	-	-
Shareholder litigation	(750)	-	-
Other	(2,008)	(575)	(2,058)
	$ (5,981)	$ (350)	$ (1,785)

The Company recorded $71, $107 and $60 of dividend income from its 50%-owned joint venture for 1985, 1984, and 1983, respectively.

NOTE P - Segment Data

The Company manufactures and sells energy absorption and transmission products. European segment da for the Company's West German subsidiary is set forth belo

	1985	1984	1983
Sales	$12,518	$13,490	$14,1
Depreciation	819	789	6
Operating income	329	529	6
Identifiable assets	8,057	6,356	7,0
Capital expenditures	974	1,005	5

Sales to a single customer were 13%, 15% and 10% consolidated sales for 1985, 1984 and 1983, respectively.

NOTE Q - Research and Development

Costs of research and new product development amounted to $3,914 in 1985; $3,469 in 1984; and $3,000 in 1983.

NOTE R - Summarized Quarterly Financial Data (Unaudited)
((000's) omitted except share and market data)

1985	March 31	June 30	13 Weeks Ended September 29(a)	December 29(b)
Net sales	$ 31,011	$ 31,815	$ 22,851	$ 26,742
Gross profit	6,295	6,585	(2,447)	3,671
Net income (loss)	175	(314)	(15,030)	(3,002)
Income (loss) per share(e):				
Net income (loss)	.06	(.11)	(5.25)	(1.05)
Market range:				
--high	13-7/8	12-1/2	12-7/8	11-3/4
--low	12-1/4	9-5/8	11	9-3/8

1984	April 1(c)	July 1	13 Weeks Ended September 30	December 30(d)
Net sales	$ 35,599	$ 35,049	$ 30,914	$ 27,590
Gross profit	8,158	7,705	6,589	4,008
Net income (loss) from continuing operations	754	267	835	(5,222)
Net income (loss)	(1,966)	1,426	539	(41,930)
Income (loss) per share(e):				
Continuing operations	.26	.09	.29	(1.83)
Net income (loss)	(.69)	.50	.19	(14.66)
Dividends per share	-	-	-	-
Market range:				
--high	13-3/4	15-1/4	16-3/4	16-5/8
--low	8-7/8	9-1/8	13-1/2	12-7/8

(a) Includes a $10,900 restructuring charge (refer to Note F), and a $3,300 gain on the sale of the Company's headquarters. (Refer to Note E).
(b) Includes a provision for a note receivable of $1,957.

NOTE R - Summarized Quarterly Financial Data (Unaudited) ((000's) omitted except share and market data) (continued)

(c) Discontinued operations of Brake Systems, Modulus and Milford Divisions are excluded from all periods presented (refer to Note H). The Company changed its method of accounting for inventories to FIFO from LIFO in the fourth quarter of 1984. Prior quarters have be restated accordingly. (Refer to Note C).

(d) Includes a $33,000 provision for the disposition of discontinued operations. (Refer to Note H).

(e) The sum of the quarterly net income per share amounts does not equal the annual amount reported, as per shar amounts are computed independently for each quarter an the full year based on respective weighted average common shares outstanding.

Board of Directors and Shareholders
Raymark Corporation

We have examined the consolidated balance sheet of Raymark Corporation and Subsidiaries as of December 29, 1985, and the related consolidated statements of operations, shareholders' equity and changes in financial position and the financial statement schedules II, IV, V, VI, VIII and X for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As further explained in Note J to the consolidated financial statements, the Company is a party to numerous lawsuits seeking substantial damages relating to airborne asbestos fibers. The ultimate liability to the Company resulting from these lawsuits and the amount of insurance coverage available under its product liability insurance cannot be reasonably estimated at the present time. While the Company has a substantial amount of product liability insurance, there are disputes between the Company and its insurance carriers over coverage. The Company presently has insurance coverage under an Interim Funding Order encompassing primary and first level excess insurance carriers. At December 29, 1985 and March 31, 1986, the Company had available $55 million and $30 million, respectively under this funding arrangement to settle asbestos related claims which will not be sufficient to settle all future claims. The Company has not yet commenced action to seek additional funding from second and third level excess insurance carriers. Because of the uncertainty of the ultimate outcome of the Company's insurance litigation, because of the uncertainty relating to the availability of coverage from second and third level insurance carriers, because of the possibility of punitive damage awards not covered by insurance, and because of the uncertainty as to the number of asbestos-related lawsuits still to be filed and the cost of disposition of cases, it is not possible to predict the cost after insurance recoveries of settling and defending existing and future cases or the impact thereof on the Company's consolidated financial position and results of operations. Under the circumstances, there can be no assurance that the Company will not be required to seek relief under Chapter 11 of the United States Bankruptcy Code at some time in the future.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Raymark

Corporation and Subsidiaries at December 29, 1985 and the consolidated results of operations and changes in their financial position for the fiscal year then ended, in conformity with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. In addition, the financial statement schedules referred to above when considered in relation to the basic financial statements taken as a whole present fairly the information required to be included therein.

Coopers & Lybrand

COOPERS & LYBRAND

April 11, 1986
Stamford, Connecticut

New York, NY 10158
212 599-0100

GrantThornton

Accountants and
Management Consultants

Member Firm
Grant Thornton International

Board of Directors and Shareholders
Raymark Corporation

We have examined the consolidated balance sheet of Raymark Corporation and Subsidiaries as of December 30, 1984 and the related consolidated statements of operations, shareholders' equity and changes in financial position for each of the fiscal years in the two-year period ending December 30, 1984. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As further discussed in Note J to the consolidated financial statements, the Company is a party to numerous lawsuits seeking substantial damages relating to exposure to airborne asbestos fibers. The ultimate liability resulting from these lawsuits cannot be reasonably estimated at the present time.

As discussed further in Note G to the consolidated financial statements, the Company is in default of financial covenants of the Revolving Loan Agreement which have been waived through April 30, 1985. The Company continues to classify this debt as well as other debt as long-term.

In our opinion, except for the classification of lo debt as described in the preceding paragraph and subject to t effects on the financial statements of such adjustments, if a might have been required had the outcome of the matter discus the second preceding paragraph been known, the financial stat referred to above present fairly the consolidated financial p of Raymark Corporation and Subsidiaries at December 30, 1984 consolidated results of their operations and changes in their cial position for each of the fiscal years in the two-year pe ended December 30, 1984, in conformity with generally accepte accounting principles applied on a consistent basis after giv retroactive effect to the change with which we concur, in the of accounting for inventory costs as described in Note C to t consolidated financial statements.

Grant Thornton

GRANT THORNTON
(formerly Alexander Grant & C

New York, New York
March 1, 1985 (except for Notes G and H,
as to which the date is March 19, 1985)

Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

Item 11. EXECUTIVE COMPENSATION

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Responses to these items are included in the Registrant's definitive Proxy Statement to be filed pursuant to Regulation 14A for the 1986 Annual Meeting of Shareholders.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements and Financial Statement Schedules

1) Financial Statements

Consolidated Balance Sheets for the 1985 and 1984 fiscal years

Consolidated Statements of Operations for the 1985, 1984 and 1983 fiscal years

Consolidated Statements of Changes in Financial Position for the 1985, 1984 and 1983 fiscal years

Consolidated Statements of Shareholders' Equity for the 1985 and 1984 fiscal years

Notes to Consolidated Financial Statements

Reports of Independent Accountants

2) Financial Statement Schedules

The following additional financial information is filed as part of this Form 10-K and should be read in conjunction with the consolidated financial statements. Schedules not included with this additional financial information have been omitted either because they are not applicable or because the required information is shown in the consolidated financial statements.

- Accountants' Reports relating to Schedules II, IV V, VI, VIII, and X
- Schedule II - Amounts Receivable from Related Parties
- Schedule IV - Indebtedness of and to Related Parties - Not Current
- Schedule V - Property, Plant and Equipment
- Schedule VI - Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment
- Schedule VIII - Valuation and Qualifying Accounts
- Schedule X - Supplementary Income Statement Information
- Consents of Independent Accountants

3) Exhibits

3(a) Certificate of Incorporation of Registrant.(

3(b) By-Laws of Registrant.(a)

4(a) Certificate of Incorporation of Registrant.(

4(b) Registrant hereby agrees to furnish a copy c all instruments with respect to long-term debt nc exceeding 10% of the consolidated total assets o: Registrant to the Securities and Exchange Commission upon request.

10(a) Conformed copy of Commercial Revolving Loa Agreement (the "Revolver") as amended by Amendme 1 through 7 between Raymark Industries, Inc., Th Prudential Life Insurance Company of America, Th Morgan Guaranty Trust Company of New York, et al dated March 25, 1983, as amended; Amendments 8 a 9 to the Revolver (g); conformed copy of relate Amended and Restated Security Agreement dated

April 7, 1983 including Amendments 1 and 2 thereto (e); Amendment 3 to related Amended and Restated Security Agreement; (g) and Amendment 10 to the Revolver. (h)

10(b) Amendment 11 to the Revolver.

10(c) Joint Venture Agreement dated April 2, 1973 between Raybestos-Manhattan, Inc. and Daikin Manufacturing Co. Ltd. (b)

10(d) Employment Agreement dated December 6, 1979, and amendments thereto dated November 19, 1980, March 12, 1981 and August 5, 1983 between Registrant and Frederick J. Ross. (c)

10(e) Form of Employment Agreement between Registrant and certain executive employees. (b)

10(f) Agreement for Sale of Assets dated March 14, 1985 between Raymark Industries, Inc. and Brake Systems, Inc. (f)

10(g) Registrant's 1980 Non-Qualified Stock Option Plan, as amended. (d)

10(h) Registrant's Variable Compensation Program. (a)

10(i) Conformed copy of the Letter Agreement between Raymark Industries, Inc., the Prudential Life Insurance Company of America, The Morgan Guaranty Trust Company, et al. dated March 19, 1985. (g)

10(j) Settlement Agreement, dated March 4, 1986, between Frederick J. Ross and Raymark Corporation.

10(k) Amendment No. 1, dated February 1, 1986, to the term loan agreement dated July 1, 1983 between Raymark Industries, Inc. and Manufacturers Hanover Leasing Corporation.

10(l) Note Agreement, dated April 11, 1986, between Raymark Corporation, Raymark Industries, Inc. and Echlin Inc.

18 Letter from Alexander Grant & Company, Registrant's independent accountant for 1984 re: Change in Accounting Principles, dated April 15, 1985. (g)

22 Subsidiaries of the Registrant. (g)

24 Consents of Independent Accountants.

28 Order dated October 16, 1984, in reference to Zurich Insurance Company and Northbrook Excess an Surplus Insurance Company v. Raymark Industries, Inc., et al, Circuit Court of Cook County, Illinois. (g)

(b) Reports on Form 8-K

In its Form 8-K dated December 6, 1985, the Registrant reported that on December 6, 1985, the Transit Casualt Co., which underwrites a $32 million portion of the Company's $365 million excess insurance pool, was plac in liquidation by the Missouri Division of Insurance.

FOOTNOTES

(a) Filed as an Exhibit to Registrant's Registration Statement on Form S-14, (Registration No. 2-77656 as amended by a post-effective amendment on Form S-8 originally filed with the Securities and Exchange Commission on May 21, 1982.

(b) Filed as an Exhibit to Raybestos's Registration Statement on Form S-14 (Registration No. 2-70406) as amended, originally filed with the Securities and Exchange Commission on December 24, 1980 and incorporated herein by reference.

(c) Included in Registrant's Annual Report on Form 10 for the fiscal year ended January 1, 1984.

(d) Included in Registrant's Registration Statement o Form S-8 (Registration No. 2-95251) filed with th Securities and Exchange Commission on January 11, 1985.

(e) Security Agreement and Amendments 1 and 2 theretc in connection with Commercial Revolving Loan

Agreement included in Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1984.

(f) Filed as an Exhibit to Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on April 3, 1985.

(g) Included as an Exhibit to Registrant's Report on Form 10-K filed with the Securities and Exchange Commission, on April 15, 1985, as amended by a Form 8 filed May 20, 1985.

(h) Included as an Exhibit to Registrant's Report on From 8-K filed with the Securities and Exchange Commission on May 6, 1985.

AUDITORS' REPORT ON SCHEDULES

Board of Directors
Raymark Corporation

In connection with our examination of the consolidat financial statements of Raymark Corporation and Subsidiaries r to in our report dated March 1, 1985 (except for Notes G and H to which the date is March 19, 1985), which is qualified for t reasons stated therein, we have also examined Schedules V, VI, and X for each of the two years ended December 30, 1984. In o opinion, these schedules present fairly the information requir be set forth therein.

Grant Thornton

GRANT THORNTON
(formerly Alexander Grant & Co

New York, New York
March 1, 1985

RAYMARK CORPORATION
SCHEDULE II - AMOUNTS RECEIVABLE FROM RELATED PARTIES
(000's omitted)

COLUMN A Name of Debtor	COLUMN B Balance At Beginning Of Period	COLUMN C Additions	COLUMN D Deductions	COLUMN E Balance At End of Period
52 Weeks Ended December 29, 1985				
Accounts Receivable Trade				
Echlin Inc.	$ -0-	$ 5,197	$ 4,195(1)	$ 1,002(3)
Miscellaneous Receivable (2)				
Echlin Inc.	$ -0-	$ 2,051	$ 970(1)	$ 1,081(3)

(1) Amounts collected in 1985.
(2) Relates to charges for rent and utilities.
(3) We anticipate that these amounts will be collected in 1986.

RAYMARK CORPORATION
SCHEDULE IV - INDEBTEDNESS OF AND TO RELATED PARTIED
NOT CURRENT
(000's omitted)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN
Name of Debtor	Balance At Beginning Of Period	Additions	Payments	Balance At End Of Period
52 Weeks Ended Dec. 29, 1985				
Notes payable to Echlin Inc.	$9,619	$6,318	$9,619(1)	$6,318(

(1) Reduction of the proceeds from the sale of the Brake Systems Division to Echlin on March 19, 1985. This amount was include net assets of discontinued operations at December 30, 1984.

(2) This note payable was a result of an adjustment to the proceed from the sale of the Brake System Division (Refer to Item 8 - Notes G & H in the Notes to Consolidated Financial Statements)

RAYMARK CORPORATION
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
(000's omitted)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Classification	Balance at beginning of period	Additions at cost	Retirements	Other changes add (deduct) -describe	Balance at end of period
52 Weeks Ended Dec. 29, 1985					
Land	$ 523	$ -	$ -	$ 28	$ 551
Buildings	25,841	79	80	332	26,172
Machinery and Equipment	62,676	4,787	274	1,502	68,691
Construction in progress	2,042	(1,517)(2)	-	-	525
	$91,082	$ 3,349	$ 354	$ 1,862(3)	$95,939
52 Weeks Ended Dec. 30, 1984 (1)					
Land	$ 568	$ 56	$ -	$ (101)	$ 523
Buildings	22,996	3,177	-	(332)	25,841
Machinery and Equipment	60,000	6,549	677	(3,196)	62,676
Construction in progress	3,439	(1,397)(2)	-	-	2,042
	$87,003	$ 8,385	$ 677	$(3,629)(3)	$91,082

(continued on following page)

SCHEDULE V (continued)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Classification	Balance at beginning of period	Additions at cost	Retirements	Other changes add (deduct) -describe	Balance at end of period
52 Weeks Ended Jan. 1, 1984 (1)					
Land	$ 581	$ -	$ -	$ (13)	$ 568
Buildings	22,949	254	70	(137)	22,996
Machinery and Equipment	57,942	6,465	1,434	(2,973)	60,000
Construction in progress	2,313	1,126(2)	-	-	3,439
	$83,785	$ 7,845	$ 1,504	$(3,123) (3)	$87,003

(1) All years have been restated to exclude discontinued operati
Refer to Note H to the consolidated financial statements.
(2) Net change for the period.
(3) Amounts reflect foreign currency translation adjustments and assets sold.

Depreciation of property, plant and equipment is provided at annual rates based on estimated service lives. The rates ar applied as described in Notes A and D to the consolidated financial statements.

This schedule does not include the Trumbull, Connecticut fac which at December 30, 1984 was reclassified to other current assets. 1983 was restated to conform with the 1984 presenta

RAYMARK CORPORATION
SCHEDULE VI - ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT
(000's omitted)

COLUMN A Description	COLUMN B Balance at beginning of period	COLUMN C Additions Charged to Costs and Expenses	COLUMN D Retirements	COLUMN E Other changes-add (deduct)-describe	COLUMN F Balance at end of period
52 Weeks Ended Dec. 29, 1985					
Buildings	$12,878	$ 906	$ 4	$ 397	$14,177
Machinery and Equipment	41,154	4,333	256	5,566	50,797
	$54,032	$ 5,239	$ 260	$ 5,963 (3)	$64,974
52 Weeks Ended Dec. 30, 1984(1)					
Buildings	$12,592	$ 656	$ 74	$ (296)	$12,878
Machinery and Equipment	39,269	5,080	1,601	(1,594)	41,154
	$51,861	$ 5,736	$ 1,675	$(1,890) (2)	$54,032
52 Weeks Ended Jan. 1, 1984(1)					
Buildings	$12,101	$ 906	$ 62	$ (353)	$12,592
Machinery and Equipment	37,113	4,384	987	(1,241)	39,269
	$49,214	$ 5,290	$ 1,049	$(1,594) (2)	$51,861

(1) All years have been restated to exclude discontinued operations as described in Note H to the consolidated financial statements.
(2) Primarily foreign currency translation adjustments and assets sold.
(3) Includes plant impairment of $5,036, foreign currency translation adjustment and assets sold.

This schedule does not include the Trumbull, Connecticut facility which at December 30, 1984 was reclassified to other current assets. 1983 was restated to conform with the 1984 presentation.

SCHEDULE V (continued)

COLUMN A	COLUMN B	COLUMN C	COLUMN D	COLUMN E	COLUMN F
Classification	Balance at beginning of period	Additions at cost	Retirements	Other changes add (deduct) -describe	Balance at end of period
52 Weeks Ended Jan. 1, 1984 (1)					
Land	$ 581	$ -	$ -	$ (13)	$ 568
Buildings	22,949	254	70	(137)	22,996
Machinery and Equipment	57,942	6,465	1,434	(2,973)	60,000
Construction in progress	2,313	1,126(2)	-	-	3,439
	$83,785	$ 7,845	$ 1,504	$(3,123) (3)	$87,003
	=======	=======	=======	========	=======

(1) All years have been restated to exclude discontinued operati
Refer to Note H to the consolidated financial statements.
(2) Net change for the period.
(3) Amounts reflect foreign currency translation adjustments and
assets sold.

Depreciation of property, plant and equipment is provided at annual rates based on estimated service lives. The rates ar applied as described in Notes A and D to the consolidated financial statements.

This schedule does not include the Trumbull, Connecticut fac which at December 30, 1984 was reclassified to other current assets. 1983 was restated to conform with the 1984 presenta

SCHEDULE VIII (continued)

Facilities realignment					
52 weeks ended Dec. 30, 1984(2)	$ 620	$ -	$ -	$ 620	$ -
52 weeks ended Jan. 1, 1984(2)	$2,791	$ -	$ -	$2,171	$ 620
Discontinued Operations					
52 weeks ended Dec. 29, 1985	$16,252 (3)	$ 700	$ -	$6,337	$ 10,615 (4)

(1) Charges against reserve for purposes provided.
(2) All years have been restated to exclude discontinued operations as described in Note F to the consolidated financial statements.
(3) This reserve was established on December 30, 1984 in connection with the sale of the Brake Systems Division.
(4) $3,505 is expected to be charged to this amount in 1986.
(5) The note receivable and related allowance is included in other assets.

RAYMARK CORPORATION

SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS

(000's omitted)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
		Additions			
Description	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions (1)	Balance at end of period
Deducted from assets to which they apply: (2)					
Allowance for trade accounts receivable(5)					
52 weeks ended Dec. 29, 1985	$ 418	$ 593	$ 9	$ 304	$ 716
52 weeks ended Dec. 30, 1984(2)	$ 414	$ 156	$ (13)	$ 139	$ 418
52 weeks ended Jan. 1, 1984(2)	$ 812	$ (330)	$ (12)	$ 56	$ 414
Shown as a reserve: (2)					
Allowance for Note Receivable(5)					
52 weeks ended Dec. 29, 1985	$ -	$1,957	$ -	$ -	$1,957

(continued on following page)

RAYMARK CORPORATION

SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
(000's omitted)

COLUMN A	COLUMN B		
Item	Charged to Costs and Expenses for the:		
	52 Weeks Ended Dec. 29, 1985	52 Weeks Ended Dec. 30, 1984(1)	52 Weeks Ended Jan. 1, 1984(1)
Maintenance and repairs	$8,866	$8,345	$5,397
Taxes, other than payroll and income taxes	$1,218	$1,279	$1,199

(1) All years have been restated to exclude discontinued operations described in Note H to the consolidated financial statements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Raymark Corporation

By Craig R. Smith
Craig R. Smith
President

Date: April 14, 1986

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in t capacities shown on April 14, 1986.

Signature and Title

Craig R. Smith
Craig R. Smith
President

John D. Kutzler
John D. Kutzler
Vice President and Treasurer

Albert Canosa
Albert Canosa
Vice President and Controller

Theodore W. Brooks, Director

Donald Miller
Donald Miller, Director

Anthony E. Mirti
Anthony E. Mirti, Director

Gilbert C. Mott
Gilbert C. Mott, Director

John G. Rohrbach, Director

Richard A. Stark
Richard A. Stark, Director

D. Lee Tobler, Director

David A. Wingate
David A. Wingate, Director

Ealan J. Wingate
Ealan J. Wingate, Director