1983 Annual Report

PLAINTIFF'S EXHIBIT
T-311

Raymark CORPORATION

FINANCIAL HIGHLIGHTS
(000's omitted, except share data)

Fiscal Year	1983	1982
Net Sales	$238,262	$243,158
Loss from continuing operations	(15,990)	(9,891)
Income (loss) from discontinued operations	4,505	(27,159)
Net loss	(11,485)	(37,050)
Income (loss) per share:		
Continuing operations	(5.80)	(3.67)
Discontinued operations	1.64	(10.07)
Net loss per share	$ (4.16)	$ (13.74)
Average shares outstanding	2,758,606	2,696,860

PROFILE

Raymark Corporation, through its operating subsidiary, Raymark Industries, Inc., is a multinational manufacturer and marketer of energy absorption, transmission, and custom-engineered products.

These products are utilized in the automotive, farm machinery, truck and bus, earthmoving, construction equipment, appliance, mining, petrochemical and energy industries.

The Corporation's operations include four manufacturing plants, four brake product remanufacturing centers, and one disc pad assembly plant in the United States. Raymark also has manufacturing facilities in West Germany and Canada, and joint ventures in Japan and Mexico.

Raymark employs approximately 3,100 people throughout the world. As of December 31, 1983, there were 4,084 holders of common stock. The Corporation is listed on the New York Stock Exchange and is headquartered in Trumbull, Connecticut.

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TO OUR SHAREHOLDERS

In past letters to you, we have described the strategic steps management has taken to strengthen Raymark, positioning it to benefit from the expected upturn in our major markets. These efforts and the resulting cost reductions continued in 1983, but our ability to bring a profit to the bottom line was frustrated by several developments.

On the positive side, the Company won an important preliminary court decision granting us major relief from the expense of asbestos litigation. We increased operating profits, despite reduced sales volume, and eliminated a major drain on corporate earnings by selling our Modulus fastener operation. We continued to reduce overhead costs at the corporate level and in our Industrial Division. Production costs began to come down as a result of Raymark's manufacturing rationalization program. Our ongoing investment to strengthen the aftermarket distribution business resulted in continued sales increases and improved market penetration.

These important achievements were offset by some adverse factors. The markets for our heavy duty original equipment products remained in the grip of recession. The $9.3 million impact of asbestos liability expenses and $5.3 million charges to restructure or close certain manufacturing facilities were strong contributors to the Company's disappointing financial results. In addition, increased selling expenses and manufacturing problems in the Brake Systems Division, concentrated particularly in the fourth quarter, adversely affected the bottom line.

Sales from continuing operations for the year were $238 million, compared with $243 million in 1982. The results of 1982 include the contribution made by our North Charleston facility, which we sold in June of 1982. With that segment excluded, we recorded a $10.9 million sales improvement over 1982, with replacement sales growth more than offsetting the industrial decline. Despite a shift in sales toward lower margin products, operating profit grew by $2.3 million.

The Company reported a loss from continuing operations of $16.0 million, or $5.80 per share. These losses were partially offset by a one-time gain of $4.1 million, or $1.50 per share, on the sale of the Modulus and Milford fastener divisions, resulting in a net loss for the year of $11.5 million, or $4.16 per share.

Major Markets Remain Depressed

Although 1983 saw a general improvement in business conditions nationally, including the automotive industry, many of the industries we serve continued in a severe downward spiral. Heavy duty tractor production declined about 25% below the already abysmal levels set in 1982. Production of construction vehicles utilizing Raymark-type products was also down 25%, the result of slow market recovery and excess inventories. Severely curtailed oil well drilling and excessive inventories minimized that industry's need for oil well brake linings. We were forced to respond to each of these conditions by curtailing our own production. In addition, extreme price pressures compressed margins in these markets, despite our successes in reducing costs. These conditions erased Raymark's chances for recovery in 1983.

Stratford/Australia

Our earnings were adversely affected by $5.3 million charges related to restructuring one antiquated manufacturing facility and closing another. In the fourth quarter, we adopted a plan to restructure our dry brake plant in Stratford, Connecticut, and took a $4 million charge against income. We are confident that the plan will substantially reduce manufacturing costs for this increasingly important segment of our business.

In the third quarter, we permanently closed our clutch facing plant in Melbourne, Australia, due to changed business conditions in the Australian market.

Improvement in Operating Profits

During the year, operating profit increased by $2.3 million. This was a direct result of aggressive, corporate-wide programs to reduce costs and improve productivity. Corporate overhead was further reduced by 14%. Increases in our costs of purchased products, raw materials, and labor were held to a minimum.

1983 also brought a full year's benefit from earlier actions to strengthen Raymark — the business unit restructuring of our organization, the material reduction of staffing levels, modernization and realignment of manufacturing plants, and improvements in information systems.

Our Industrial Division responded to the negative business environment with decisive income improvement programs at all levels. Gains in manufacturing efficiency were impressive. New processes were installed at our Crawfordsville, Indiana and Manheim, Pennsylvania plants. Productivity improvements, as well as waste and scrap reduction programs, substantially lowered costs. Direct labor employment was adjusted in accordance with production requirements. Overhead spending was limited to programs vital to strengthen the organization.

Investment for Growth in Automotive Aftermarket

During 1983, we added substantial resources to support the growth of our automotive aftermarket operations. We expanded existing product lines, introduced new products and entered new channels of distribution. We strengthened customer preference for our Raybestos® and Grey-Rock® branded products by intensifying selling, merchandising, and promotional programs.

To support our nationwide distribution network, we developed and installed a state-of-the-art, computerized order entry system which will improve customer service, inventory control, and forecasting.

While these added costs penalized aftermarket profits during the year, they resulted in market share gains and will provide momentum for deeper market penetration, and more profitable sales, in 1984 and beyond.

Modulus and Milford Divisions Sale Completed

During the year the Company sold its Modulus and Milford Rivet Divisions for $17.5 million in cash and notes. These operations had accounted for an after-tax loss of $11 million in 1982.

New Technical Development Center Nears Completion

Construction continued during the year on Raymark's new Technical Development Center located adjacent to our steel fabrication and wet friction plants in Crawfordsville, Indiana. The Center, which will be fully operational during the spring of 1984, will help develop new products to sustain our leadership position in friction material technology for the vehicular industries.

Housing an experienced staff of engineers, scientists, and technicians, it will be the international center for the Company's research and development activities for wet clutch and brake products. It will incorporate some of the industry's largest, most advanced computerized friction testing equipment.

Furthermore, the Center's proximity to our original equipment markets will reinforce our ongoing relationships with customers and their technical staffs.

New Non-Asbestos Products Get Good Market Reception

Raymark's firm and continuing Research and Development commitment resulted in the 1983 introduction of several new non-asbestos products. Our heavy duty non-asbestos brake block for truck applications and a new semi-metallic hydraulic disc brake pad, which is currently in production on Ford trucks, met with excellent market acceptance. In addition, our new, non-asbestos clutch facings, introduced during the year, have won approvals from major OEM customers for 1984 production.

We are committed to developing substitutes for friction materials still containing asbestos.

1984 Outlook

There are several encouraging economic signs as we enter 1984. The end of the last quarter of 1983 saw an upward trend in Industrial Division backlogs. There are indications that the construction and agricultural equipment markets are coming to life. Production rates of several major industrial equipment customers are rising.

As part of our ongoing cost-cutting activities, in March of 1984, the Company announced a major reduction in headquarters staff and a plan to relocate our corporate headquarters to smaller facilities in the area.

While keeping the tightest possible rein on all costs, we will nevertheless continue our investments in research and development necessary to maintain technological leadership. We expect to reap the benefits of our investments made in the Brake Systems Division and be ready for full and profitable participation in our reviving original equipment markets.

There are no certain market predictions. We are, however, encouraged by the trends which have developed over recent months. Moreover, we are seeing the first fruits of decisions made several years ago — decisions affecting our organization, new product development, productivity, and asbestos liability exposure. Although the first quarter may continue to be a difficult period for Raymark, we can expect a gradual return to profitability, assuming continuation of the economic recovery now underway.

We want to thank our shareholders who have continued to bear with us through this difficult period of rebuilding and recovery. At the same time, we must pay tribute to our more than 3,000 loyal employees who, despite hardships and disappointments, have given unstinting support to our rebuilding program.

Sincerely,

David A. Wingate
Chairman

Frederick J. Ross
President and Chief Executive Officer

Management Changes

David A. Wingate was elected Chairman of the Board of Raymark effective July 1, 1983. Mr. Wingate is Chairman and Chief Executive Officer of Hi-Shear Industries Inc., which owns 30.6% of Raymark's outstanding stock. He has served on the Raymark Board of Directors since 1981.

Mr. Wingate succeeded William S. Simpson, Raymark's Chairman since 1971, who retired in 1983 after 44 years of dedicated service to the Company. Bill Simpson guided Raymark through important periods in its development, and his counsel will be missed. Ealan J. Wingate, Vice President of Hi-Shear, was elected to fill the vacancy created by Mr. Simpson's departure.

Early in 1984, Frank Bloom, former Executive Vice President of Hi-Shear, resigned as a Director. In his place, the Board appointed Anthony E. Mirti, President and Chief Operating Officer of Hi-Shear.

Also in 1984, Harry D. Day was appointed to the post of Vice President, Secretary and General Counsel. Mr. Day joined us from Olin Corporation.

Frederick F. Schauder, Vice President, Finance and Chief Financial Officer, resigned from the Corporation, effective April 1, 1984, to pursue other business interests.

ASBESTOS

Favorable Court Decision On Asbestos Liability Claims

Raymark's 1983 earnings continued to be pummeled by on-going asbestos litigation expenses. During the year, 5,308 new asbestos-related lawsuits were filed, bringing the total pending against us to 14,936. Asbestos costs, including legal expenses, settlements, verdicts, insurance protection, and workers' compensation, totaled $9.3 million in 1983.

In November, the Company won an important court decision which represents a major step toward resolution of our asbestos liability exposure. The Cook County, Illinois, Circuit Court issued an order providing us with interim funding to cover our asbestos-related litigation costs. The order requires our primary insurance carriers with unexpended coverage to assume the liability and defense costs of all pending and future asbestos-related litigation. The interim funding arrangement is expected to continue until a final order is entered by the Court.

Prior to the November order, Raymark had been forced to absorb a substantial portion of the costs associated with asbestos litigation. The Company's share was $6.7 million in 1983 and $7.5 million in 1982.

This order was issued subsequent to a preliminary decision by the same court in late September, which, when final and if affirmed by appellate courts, will open the door to almost $400 million worth of coverage provided under policies purchased continuously since 1941. Conflicts among the various insurers as to which carriers would be liable for asbestos litigation costs had previously limited our access to this pool of coverage. There remain certain collateral issues which should be decided by mid-1984, when we expect a final order to be entered. This final decision may be appealed, a process which could last two or more years. But funding should continue and, as it stands now, Raymark is released from a major burden that has impeded our recovery efforts. Without this serious drain, we are in a much stronger position in 1984.

Raymark in the Vanguard of Parties Seeking Resolution to Asbestos Problem

The current system of compensating people suffering from asbestos-related disease is both untimely and inequitable, and carries unconscionable transaction costs, creating a national tragedy. Further, it has created a huge bottleneck throughout the judicial system.

Raymark is at the forefront of the effort to develop a legislative solution to this immense and complex problem. During 1983, we testified before the House Subcommittee on Labor Standards regarding an occupational disease compensation bill. This bill (H.R. 3175) is sponsored by Congressman George Miller (D-CA). Later in the year, we were again invited to appear at a Public Policy Forum chaired by Senator Christopher J. Dodd (D-CT).

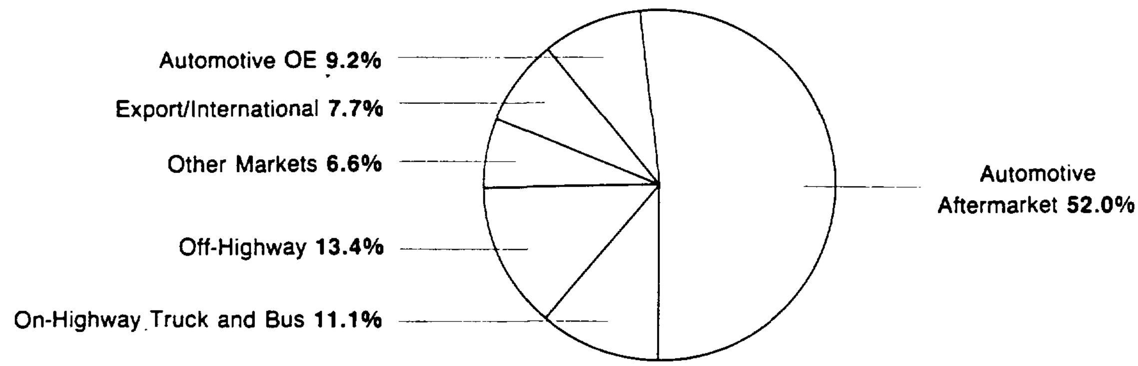
Our position on asbestos compensation legislation is based on these principles:

- The federal government, because of its role as a supplier, employer, and controller of the workplace, must cease hiding behind the veil of "sovereign immunity" and contribute its fair share in those cases where it has a clear responsibility.
- No new federal bureaucratic system should be devised. Instead, the existing state workers' compensation system should provide the mechanism for compensating injured parties.
- Compensation must be based on strict medical criteria provided by experts, to avoid the runaway cost of existing entitlement programs.
- Finally, the legislative solution must be the exclusive remedy for compensating deserving claimants. Currently, the tort litigation system delivers as little as 25 cents per dollar of total costs to the successful claimant, while 75 cents goes to defense and plaintiffs' attorneys. Elimination of this wasteful litigation is the only way to assure an equitable, affordable solution to this problem.

We were heartened to learn that the U.S. Senate may shortly commence hearings on this subject which is so important to the future of our Company. Although we do not anticipate passage of a bill in this election-shortened legislative session, we are encouraged by the increased awareness of this issue by Congress, the press, and the public.

MARKET PROFILES

Raymark products serve useful purposes in many industrial and consumer fields. On the following pages you will find comprehensive descriptions of the principal markets in which we operate.



This chart shows the portion of Raymark sales represented by each principal market segment.

Automotive Original Equipment Market

Raymark sales to its automotive OEM market — consisting of automatic transmission plates, clutch facings, and non-asbestos disc brake pads — increased 20% in 1983 over those in 1982.

Market Environment

The U.S. economy was on the track of recovery in 1983, after the most persistent recession since the 1930's. Domestic automobile and light truck production benefited fully from this economic revival, posting respective increases of 34% and 19% over 1982. Unit sales of domestic passenger cars increased 18%; light truck sales showed a 23% improvement.

This dramatic turnaround, however, had only a marginal effect on Raymark's revenues because this market represents a fractionally small proportion of total Company sales.

Opportunities for penetrating this market are limited by some customers who are integrated to produce their own friction materials. General Motors, for example, secures most of its brake components and automatic transmission plates from its wholly-owned Delco-Moraine Division. Similarly, in the clutch area, facings are sometimes internally produced by clutch manufacturers, who then supply entire clutch assemblies to Detroit automakers.

Nevertheless, we are striving to improve Raymark's share in Detroit's business and made promising progress in 1983.

Brake Products

Any OEM business-to-business operation is dependent upon rigorous long-term laboratory and field product testing by OEM customers. This process often takes as long as two years before OEM customers certify and approve products for their equipment. While OEM approval does not guarantee that orders will follow, an OEM-approved product is part of a limited population of acceptable materials and an essential first step in acquiring new business.

In late 1982, our strong technical base and superior non-asbestos material won a major OEM-approval from Ford Motor Company. As a result, a new generation of semi-metallic disc brake pads was used in Ford's 1983 production of 250/350 light trucks. This material's technical superiority has gained Raymark entry into the brake segment of the automotive original equipment market. In 1984, we expect to build upon this important development and aggressively pursue new non-asbestos original equipment approvals for further market penetration.

Clutch Products

The OEM manual transmission friction market grew about 20% in 1983, less than the growth rate of domestic automotive production, because of two factors: the increased sourcing by domestic auto manufacturers of foreign clutches (up to 12% in 1983 from 1% in 1980) and the continuing shift from manual to automatic transmissions.

Raymark kept pace with the market's 1983 growth rate and posted a healthy 25% increase in sales of clutch products.

A key positioning factor for new business development in the automotive OEM market resulted from the investment in our Manheim, Pennsylvania, plant. As part of Raymark's plant modernization program, we installed a new manufacturing process at Manheim for Raymark's "next generation" non-asbestos material.

This new material provides improved performance in downsized automobiles which operate at higher temperatures. We predict that this recently introduced non-asbestos clutch facing will win OEM approvals, with consequent sales and market share gains.

Automatic Transmission Plates

The OEM automatic transmission plate market grew more than 35% in 1983, rebounding with increased auto production, primarily at General Motors. Raymark increased its market share with certain manufacturers and enjoyed a 24% unit increase in sales.

Two 1983 developments, however, give us an optimistic, and reasonable, basis to foresee increased market penetration in the future:

- As a final step in its original 3-year plant rationalization program, Raymark transferred automatic transmission plate production from Stratford, Connecticut to Crawfordsville, Indiana. Consolidation of automatic transmission plate production with other wet clutch and brake manufacture in Crawfordsville — near our new steel fabrication plant and new Technical Development Center — will generate significant savings. Greater proximity to customers is another major benefit. This relocation will expand Raymark's technological leadership in product development and low-cost manufacturing — essential in this highly competitive market.
- We can now assure higher quality products because we have enhanced, at all levels of production, statistical process controls that match the various requirements of our original equipment customers' "certified supplier" quality programs.

Streamlined manufacturing and improved quality will give us the capability to compete for a larger share of Detroit's business in the future.

Automotive Aftermarket

The automotive aftermarket is playing an increasingly important role in the Company's overall performance. In 1983, over 50% of Raymark's business was in the automobile and light truck replacement parts market.

Products sold to this market include:

- Automatic transmission plates — marketed through transmission packagers to transmission rebuilders, specialty repair shops, and O.E.M. service locations.
- Clutch facings — marketed through clutch rebuilders and clutch facing warehouse distributors to automotive warehouse distributors, jobbers, dealers, and repair shops.
- A complete line of brake system products, including disc brake pads, brake shoes, hydraulic parts, hardware, drums, rotors, and fluid to supply the needs of both the "traditional" aftermarket — long a mainstay of our replacement business — and the newer "non-traditional" aftermarket.

In our "traditional" market, we sell Raybestos® branded products through warehouse distributors to automotive jobbers who supply car dealers, service stations, and independent repair shops. The same products are sold under private label to our "non-traditional" market of nationally known volume retailers and large repair chains such as K Mart and Montgomery Ward. An increasing number of "do-it-yourself" customers purchase our products both in automotive jobbing stores and through mass merchandisers.

Market Environment

Several key factors affecting aftermarket growth are miles driven, the age and makeup of the vehicle population, and inflation rates. In 1983, the surge in disposable income and the containment of fuel prices increased distances driven, both in aggregate and per vehicle mileage. This resulted in a proportionate increase in parts consumption per vehicle and created replacement parts demand.

MARKET PROFILES

The number of vehicles in operation grew approximately 1.6% for passenger cars and 2.9% for light trucks. This growth rate was heavily influenced by the longer vehicular life, extended manufacturers' warranties, and flattened population growth. The net result is a rising average age, now 7.2 years, of on-the-road vehicles — prime candidates for replacement parts.

Another significant factor has been the trend in recent years towards front wheel drive and "downsized" cars. The higher operating temperatures of these demanding applications require higher capacity in friction material and present new challenges to brake, transmission, and clutch product manufacturers. Another effect of the downsizing trend has been an acceleration of revenues per part sold. This unit volume gain is due to higher quality per part.

Complexity of vehicles and growth of import cars have resulted in a great parts proliferation in the aftermarket. This trend, and higher interest rates, brought new pressures on manufacturers and distributors to manage inventories more efficiently. Parts distributors have become increasingly sophisticated in inventory control procedures and are applying additional service and delivery pressures on Raymark and other parts manufacturers.

Brake Products

While the total automotive aftermarket grew 2.6% in 1983, the brake segment of the market grew at a rate of 3.1%. Raymark sales increased 13.5%, resulting in convincing market share gains.

These gains can be attributed to a number of factors. A significant investment in strong, quality-oriented sales and merchandising campaigns enabled Raymark to enter new channels of distribution and to expand existing channels. We successfully converted a number of major customers from competitors' brands to Raybestos products.

We combatted a trend of declining sales of our premium product lines by accelerating promotional activity, highlighted by television advertising in eight key markets. This worked to strengthen trade and consumer preference for Raybestos higher-value products and resulted in a sales shift of our brake product mix, with a consequent improvement in our aftermarket product gross margins.

An increase of downsized vehicles led to a significant increase of sales of Raymark's line of Super Stop® semi-metallic brake pads, a non-asbestos disc brake pad with superior durability, noise abatement, rotor wear, and performance characteristics. We expect this product innovation to build Raymark's market share as more and more smaller cars come due for brake replacement service.

Operations of our nationwide network of regional distribution centers were upgraded with the development and 1983 installation of a new computerized order entry system. This state-of-the-art system instantly provides up-to-the-minute information on the status of every order and every part. It greatly improves our ability to service customers and manage inventory.

Transmission and Clutch Products

Intense competitive pricing pressures in both the automatic transmission aftermarket and in the manual clutch facing aftermarket resulted in market share loss and lower dollar volume in 1983. Raymark expects to overcome these obstacles and regain market share in both categories through renewed marketing emphasis and improved service levels.

Outlook

The aftermarket parts sector is expected to grow at nearly a 2.5% annual rate, with more advantageous pricing increases in 1984 and beyond. Two trends encourage this solid growth area:

- First, as cars stay on the road longer and downsizing continues, the "necessary" replacement parts market will reap the benefits.
- Second, as personal income rises with improving economic conditions, car owners will perform "discretionary" repairs with name-brand products as they become willing to spend more on vehicle maintenance.

We are already in a strong position to capitalize profitably on these trends.

On-Highway Truck and Bus

Raymark serves the on-highway market through both original equipment manufacturers of heavy trucks and buses, and companies supplying components and replacement parts for these vehicles.

We participate in the original equipment segment of the market with the following products:

- Automatic transmission friction plates
- Automatic transmission steel reaction plates
- Manual transmission clutch facings
- Non-asbestos disc brake pads and brake blocks

These products are sold directly to vehicle manufacturers or through transmission manufacturers and clutch producers.

During the year, North American OEM factory shipments of heavy duty, Class 6, 7, and 8 trucks and buses were flat. Raymark sales to this original equipment sector increased 6% overall.

Transmission and Clutch Products

Sales of heavy duty automatic transmission products, manufactured at Raymark's Crawfordsville, Indiana facility, increased 11 percent over 1982, mostly as a result of market share gain and improved product mix in the heavy transmission friction and steel parts business.

Sales of manual transmission clutch facings were flat 1983 to 1982, as OEM's continued to shift from clutch facing to clutch button systems, depressing any market growth for facings. An encouraging sign, though, has been the gaining of new approvals for Raymark's new non-asbestos products made at Manheim. We expect this innovative process to open the door wider for more OEM approvals, and to position Raymark to increase its share of the heavy duty, non-asbestos clutch products market in 1984.

Brake Products

While the brake segment of the OE on-highway market is relatively small, Raymark has tripled its share in the past two years, largely through its superior non-asbestos materials. Our non-asbestos semi-metallic disc brake pads are used on Ford light and medium trucks, and gained two new major OEM approvals in 1983.

Raymark's non-asbestos heavy duty brake block, introduced early in the year, offers improved performance benefits. A 35% extended lining life and 100% extended drum life have won this product approvals from leading truck manufacturers. It is presently used in original equipment production and by leading OE service networks.

Aftermarket

Raymark serves the truck and bus aftermarket segment, through three main channels of distribution:

- The dealer service network of the original equipment manufacturers
- Clutch and brake rebuilders
- Heavy duty parts distributors who market our complete line of Grey-Rock® brand brake blocks, truck sets, disc brake pads, hydraulic brake parts and brake hardware.

Like the OEM segment, the on-highway aftermarket was very receptive in 1983 to Raymark's non-asbestos brake block. Marketed as GReat Block®, its performance benefits command a 20% premium in a highly competitive, but quality-conscious marketplace. So favorable was its acceptance by truck fleets that it alone accounted for 16% of all Raymark's heavy duty brake sales.

Raymark continued to maintain a strong share position in the bus drum brake aftermarket.

Outlook

Truck production of medium and heavy duty vehicles showed a significant increase in the fourth quarter of 1983. We are encouraged by this trend, and look for 20% growth in both the on-highway original equipment and replacement markets in 1984.

Off-Highway

The construction equipment and agricultural machinery industries comprise Raymark's off-highway market. Each has two segments: original equipment manufacture and an aftermarket. These markets — historically ranked among our most important businesses — continued their depressed state throughout 1983, contributing only 13% of total corporate sales.

The six-month long strike of one of our major customers, the government payment in kind (PIK) program, very low net farm income, and excessive 1982 production of farm equipment all contributed to this persistently poor state of affairs. Even though the national economy and other industries were rebounding in 1983, both these off-highway industries were characterized by massive layoffs, plant closings, high dealer inventories, and record losses. Yet, despite this negative backdrop, our Industrial Division did achieve some noteworthy results.

Agricultural Equipment

Raymark provides the agricultural equipment industry with three basic product groups:

- Approximately 50% of our sales to this market are wet clutch transmission and brake parts, produced in Crawfordsville for use on heavy tractors. While heavy tractor production declined an additional 25% in 1983, Raymark increased its dollar sales by nearly 18% due to new approvals, higher-value product sales, and healthy market share gains.
- Woven clutch facings are used on manual transmissions of lighter-duty tractors and accounted for about 20% of Raymark's sales to the agricultural machinery sector. Our sales increased 11% in 1983, despite the fact that lighter equipment production was flat during the year.
- Special friction products for tractor brakes, also manufactured in Manheim, made up 30% of our sales to the agricultural equipment market. New approvals and higher value products boosted these sales by 25%.

Construction Equipment

Excess inventories and slow market recovery drove production of construction vehicles, utilizing Raymark-type products, down at least 25% below 1982 levels. However, sales of our wet friction products — bolstered by new OEM approvals — fell off only 15%, resulting in market share gains.

Using a wide range of new materials — friction paper, sintered bronze, elastomerics, graphitic compounds — Raymark manufactures high-technology friction products for brake and clutch systems on a variety of construction vehicles. Manufacturers buy these products both for their original equipment production needs and for use as replacement parts in their dealer service network.

This business is largely technology-driven because demands on friction materials are constantly evolving and becoming more stringent. We have invested heavily during recent years to strengthen our position in the off-highway machinery markets. Consolidation of all wet friction manufacturing in Crawfordsville has allowed Raymark to achieve significant manufacturing cost reductions, while improving new material development, process automation, and total quality assurance.

One positive benefit of the recession has been that we and our customers have learned to make our operations leaner and more efficient, with people working harder to accomplish objectives. This business segment, in particular, benefited in 1983 from Raymark's major overhead reductions, aggressive cost-cutting, and division-wide productivity improvement programs. We increased profitability during the year — despite lower sales levels — and are now in a strong position to present the best value through cost control and quality assurance. Completion of our Technical Development Center in 1984 will further strengthen our position as a technological innovator of new friction materials.

Outlook

While recent indications have been encouraging, ˙ɐ 1984 outlook for our agricultural machinery and ,nstruction equipment markets is partially clouded; interest rates will be a key factor for each industry's rate of recovery.

Although Raymark is forecasting a limited increase in 1984 sales of all its agricultural equipment products, even a 20% pickup in demand for farm equipment won't benefit manufacturers or their suppliers because of large inventories now on hand. The outlook for the construction equipment industry is more promising. Experts predict a very strong recovery with at least a 35% increase in heavy equipment production compared to 1983.

Other Markets

Raymark's "Special Products" business unit participates in a wide variety of markets which encompass both industrial and consumer products. Our markets include machine tool, lawn and garden, mass rail transit, chain and hoist, oil exploration, government ordnance, consumer appliance, and others. Products Raymark supplies are as diverse as the markets themselves: adhesives and resins, rein-⁴⁻ʳced plastic products, compressed sheets used for ;kets, and industrial friction materials for brakes and clutches in all types of industrial machinery.

Because of their diversity, these markets shared to varying degrees in the domestic economic recovery and accounted for 6.6% of total corporate sales.

One major market is the oil well supply industry, for which we manufacture oil well brake linings. In 1983, that particular segment was flat, due largely to excessive inventories throughout the distribution chain. These were purchased prior to the 1982 oil glut which brought drilling activity to a standstill. We believe that these inventories are now largely depleted and look for this market segment to recover modestly in 1984.

The substantial decline in oil well lining sales was largely offset by an increase in sales to other sectors. Raymark outpaced the 10% growth of these industrial sectors with a 14% increase in sales. The consequent market share gains were a result of expanding existing business and new product introductions.

Of particular interest was the Company's entry into the consumer appliance business. In 1983, we introduced non-asbestos brakes for washing machines and look for future growth in this market.

These developments, and the general economic outlook for 1984, give us good reason to be optimistic about our special markets in the year ahead.

MARKET PROFILES

International Markets

Raymark products are sold around the world, through export from our U.S. plants, through the Company's wholly-owned affiliates in Canada and West Germany, and through its joint ventures in Japan and Mexico.

Raymark's nondomestic business is subject to the vagaries of the local economies affecting each foreign market. International operations were affected by the same recessionary constraints facing domestic markets during 1983. This recessionary climate continues to drag on in several of our international markets.

Export

The Company exports products to Central and South America, Europe, Japan, Australia, and Asia. This business dropped by nearly half in 1983. Much of the decline was due to the strength of the dollar in comparison to local currencies. Another factor was the trend toward national protectionism: overseas markets once open to U.S. manufacturers are now closed as foreign governments, particularly in developing nations, restrict imports and raise other trade barriers in order to encourage local manufacturing.

We expect our export business to grow with the economic recovery in our foreign markets. Raymark's non-asbestos technology and special products hold the greatest opportunity for additional market penetration.

R/M Germany

Our West German affiliate serves the European Common Market nations, as well as the Middle East and African markets, with its own clutch and dry brake products and with wet friction products made in the U.S. This affiliate has developed its clutch products, based on the needs of the European vehicle population. In recent years, it has placed greater emphasis on heavy duty clutch products for trucks and buses, marketed through clutch manufacturers.

R/M Germany supplies major European automobile manufacturers with automatic transmission plates made in Crawfordsville. It also provides the automotive and light truck replacement parts market with disc brake pads and brake lining.

Because of the weaker European economy, R/M Germany's business was off by 6% in 1983. Despite the sales decline, vigorous cost-reduction activity and improvements in productivity generated a 106% increase in operating income.

Australia

During the year, we closed our Australian clutch facing plant. This followed the loss of a large customer, representing 80% of our business, to a major Japanese clutch facing competitor. The balance of the market's needs on that continent are being met by our Manheim facility on an export basis.

Japan

Raymark participates in the Japanese wet friction market through a 50/50 joint venture with one of the leading Japanese transmission manufacturers, Daikin Manufacturing. The joint venture, Daikin-R/M, has grown to become the largest manufacturer of paper-based wet friction products in Japan.

1983 was another record year for Daikin-R/M, with sales and profits up 28% and 118%, respectively, over 1982. The prospects for further growth look bright. Daikin-R/M is working closely with Japanese construction equipment manufacturers on the conversion to advanced friction materials.

Mexico

Our joint venture in Mexico, ITAPSA, is owned 40% by Raymark and 60% by Holding-FIASA. The company's principal product lines are disc brake pads and segments for passenger cars and brake blocks and segments for trucks and buses.

The Mexican economy remained in a deep depression for the third straight year, while annual inflation exceeded 80%. Truck and bus production, a key market for ITAPSA, was at a virtual standstill during 1983. Despite these severe operating conditions, the company was able to expand its position in the replacement markets and report record sales and profits. We are proud of the efforts of our Mexican partners.

The near-term outlook for Mexico remains unattractive: depressed production activity and continued high inflation. Your management, however, is cautiously optimistic about the longer term prospects for Mexico. In the meantime, the Brake Systems Division is actively exploring an export program with ITAPSA to complement product lines manufactured in the U.S. If successful, the exports would provide much needed hard currency sales to ITAPSA while the company positions itself to capitalize on a resumption of growth in the Mexican economy.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For most of 1983, Raymark continued to be burdened by the high cost associated with asbestos-related disease litigation. In November 1983, the Circuit Court of Cook County, Illinois issued an interim funding order which shifted the cost of this litigation to Raymark's insurance carriers. The order reduced the Company's 1983 cost and will substantially reduce its 1984 expenses. (See Note G to the financial statements.) During the year, provisions were made to close the Australian plant and restructure the Stratford, Connecticut, manufacturing facility. These provisions and asbestos costs accounted for $14.6 million of the Company's loss from continuing operations for the year.

1983 Operations Review

Sales decreased approximately 2% from 1982 levels. Automotive aftermarket operations achieved a healthy 12% sales increase. These gains were partially offset by continued depressed economic conditions in major original equipment markets and manufacturing difficulties in the Brake Systems Division. Despite the sales decline, gross margins and operating profits increased, a direct result of productivity improvements and strict cost containment at all levels of the Company.

Selling and administrative expense increases reflect investments in the future of the automotive and heavy duty aftermarket operations. During 1983, advertising and promotional efforts were intensified, major new distributors were converted from competitive lines, product lines were expanded, and new products were introduced. Major studies of the Company's distribution patterns and costs were completed, and a new order entry system was developed and installed at all distribution centers. A proportionately large percentage of these expenses occurred during the fourth quarter.

Other income (expense) decreased $1.5 million in 1983. Expenses for 1983 included significant translation losses and substantial legal expenses incurred in negotiating a new revolving credit agreement. By comparison, 1982 other income was strengthened by interest earned on a note receivable, which the Company sold in 1982.

Unusual expenses in 1983 reflect provisions of $5.3 million to restructure an outdated manufacturing facility in Stratford and to close the Australian plant. In 1982, the sale of a custom-engineered products business produced a nonrecurring gain of $1,658. In 1982, we also provided for the disposition of the Modulus Fastener Division. The Milford and Modulus Divisions were sold in 1983, and a portion of the reserves provided in 1982 were realized as 1983 income.

1982 Operations Review

Sales decreased sharply in 1982 from 1981 levels reflecting the sale in mid-1982 of a custom-engineered products business, the Caterpillar strike, and depressed conditions in off-highway equipment and on-highway markets, as well as in oil well drilling activity. Automotive aftermarket sales continued the strong growth pattern begun in 1981 when a separate division for the market was organized and new management put in place. Original equipment market sales declined 31% during 1982 while aftermarket sales increased 14%.

Despite aggressive cost reductions, the heavy cost of asbestos litigation and lost margin on declining sales resulted in a substantial loss for the year from continuing operations. Interest expense increased due to heavier borrowing to finance capital expenditures, working capital, and the cost of asbestos-related claims. Asbestos costs also increased due to a larger inventory of pending claims and an increase in settlement and trial activity. Other income increased because of the sale in mid-1982 of a note receivable.

Liquidity and Capital Resources

During 1983, the Company entered into a new revolving credit agreement which consolidated certain existing short-and long-term debt. This new line provided substantial increases in available cash to fund working capital needs during the year. Also, in mid-1983, the Company obtained an Urban Development Grant and issued Industrial Revenue Bonds, totaling $10.5 million. These funds are being used to finance the steel fabrication facility, the relocation of automatic transmission plate production, and the construction of the new Technical Development Center, all in Crawfordsville, Indiana. Other sources of funds included $14.5 million from the sale of Modulus and Milford, $2.3 million in tax refunds, and the issuance of $1.8 million of treasury stock to employee benefit plans. These monies were used to finance operations, asbestos costs, and higher levels of working capital.

Future Liquidity

In early 1984, the Company renegotiated its revolving credit facility and entered into another short-term note arrangement. These loans, which provide new borrowing capacity of $17.3 million, are fully secured. Together with the savings from reduced asbestos costs due to the insurance funding, these arrangements will provide adequate cash to meet the Company's capital spending program and working capital needs in 1984. It will be necessary to negotiate additional borrowing capacity for 1985 and beyond, since the 1984 incremental borrowings must be repaid in full by February 1985. The Company believes such funds will be available to it.

CONSOLIDATED BALANCE SHEETS

(000's omitted, except share data)

Fiscal Year	1983	1982
ASSETS		
Current assets		
Cash	$ 4,240	$ 2,883
Trade accounts receivable, less allowance of $1,169 for 1983 and $816 for 1982	47,083	35,658
Inventories	66,842	59,790
Other current assets	8,838	5,555
Net assets of discontinued operations	—	6,050
Total current assets	127,003	109,936
Property, plant and equipment	130,062	124,459
Less accumulated depreciation	80,180	75,154
Net property, plant and equipment	49,882	49,305
Other assets	6,423	7,323
Total assets	$183,308	$166,564
LIABILITIES		
Current liabilities		
Notes payable and current portion of long-term debt	$ 11,899	$ 9,410
Accounts payable	24,278	18,357
Accrued liabilities	28,306	25,275
Total current liabilities	64,483	53,042
Long-term debt	61,242	47,860
Other long-term liabilities	4,560	2,797
Total liabilities	130,285	103,699
SHAREHOLDERS' EQUITY		
Capital stock		
Cumulative preference stock, no par value —800,000 shares authorized, none issued		
Common stock, par value $12.50— 4,000,000 shares authorized 2,860,806 shares issued	35,760	35,760
Capital surplus	19,099	19,099
Retained (deficit) earnings	(168)	12,439
Cumulative translation adjustment	(1,668)	(1,512)
Treasury stock, 142,806 shares at cost	—	(2,921)
Total shareholders' equity	53,023	62,865
Total liabilities and shareholders' equity	$183,308	$166,564

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(000's omitted, except share data)

Fiscal Year	1983	1982	1981
Net sales	$238,262	$243,158	$277,914
Cost of sales	174,724	182,359	202,875
Gross profit	63,538	60,799	75,039
Selling and administrative expenses	59,761	57,851	58,808
Operating profit	3,777	2,948	16,231
Interest expense	(6,790)	(6,955)	(5,608)
Asbestos related expense	(7,287)	(9,077)	(6,416)
Other income (expense), net	(275)	1,235	2,049
Income (loss) from continuing operations before unusual items	(10,575)	(11,849)	6,256
Unusual items:			
Plant restructure	(4,000)	—	—
Gain (loss) on plant disposal	(1,300)	1,658	—
Income (loss) from continuing operations before income taxes	(15,875)	(10,191)	6,256
Income tax provision (benefit)	115	(300)	3,194
Income (loss) from continuing operations	(15,990)	(9,891)	3,062
Discontinued operations, net of income taxes:			
Income (loss) from operations	355	(10,986)	(76)
Income (loss) on disposal	4,150	(16,173)	—
Income (loss) from discontinued operations	4,505	(27,159)	(76)
NET INCOME (LOSS)	$(11,485)	$(37,050)	$ 2,986
Income (loss) per share:			
Continuing operations	$ (5.80)	$ (3.67)	$ 1.19
Discontinued operations	1.64	(10.07)	(.03)
Net income (loss)	$ (4.16)	$ (13.74)	$ 1.16
Average outstanding shares	2,758,606	2,696,860	2,569,220

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 Earnings	Cumulative Translation Adjustment	Treasury Stock
Balance, December 28, 1980	2,324,036	$29,050	$14,811	$49,691	$ (304)	$ —
Net income for 52 weeks ended December 27, 1981	—	—	—	2,986	—	—
Cash dividends declared, $.85 per share	—	—	—	(2,116)	—	—
Shares issued upon exercise of employee stock options	4,658	59	31	—	—	—
Shares issued for acquisition of AVC Corporation	532,112	6,651	4,257	—	—	—
Treasury shares acquired from AVC	(164,248)	—	—	—	—	(3,367)
Foreign currency translation adjustment	—	—	—	—	(597)	—
Balance, December 27, 1981	2,696,558	35,760	19,099	50,561	(901)	(3,367)
Net loss for 53 weeks ended January 2, 1983	—	—	—	(37,050)	—	—
Cash dividends declared, $.30 per share	—	—	—	(837)	—	—
Treasury shares acquired	(792)	—	—	—	—	(10)
Treasury shares issued to employee benefit plans	22,234	—	—	(235)	—	456
Foreign currency translation adjustment	—	—	—	—	(611)	—
Balance, January 2, 1983	2,718,000	35,760	19,099	12,439	(1,512)	(2,921)
Net loss for 52 weeks ended January 1, 1984	—	—	—	(11,485)	—	—
Treasury shares issued to employee benefit plans	142,806	—	—	(1,122)	—	2,921
Foreign currency translation adjustment	—	—	—	—	(156)	—
Balance, January 1, 1984	2,860,806	$35,760	$19,099	$ (168)	$(1,668)	$ —

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(000's omitted, except per share data)

Fiscal Year	1983	1982	1981
Source (use) of funds			
CONTINUING OPERATIONS			
Net income (loss)	$(15,990)	$ (9,891)	$ 3,062
Items not affecting funds:			
Depreciation	7,368	7,717	8,327
Provision for plant restructure	4,000	—	—
(Gain) loss on plant disposal	1,300	(1,658)	—
Other	(136)	(858)	1,553
Changes in working capital:			
Trade accounts receivable	(12,231)	1,400	(5,816)
Inventories	(7,052)	8,060	(11,530)
Other current assets	523	6,033	(4,971)
Accounts payable	5,921	(5,950)	5,178
Accrued liabilities	(2,157)	(5,522)	9,689
Capital expenditures	(8,662)	(12,104)	(15,850)
Other	1,514	(1,653)	(3,477)
Funds used by continuing operations	(25,602)	(14,426)	(13,835)
DISCONTINUED OPERATIONS			
Net income (loss)	4,505	(27,159)	(76)
Items not affecting funds:			
Depreciation	487	1,339	1,448
(Gain) loss on disposal	(4,150)	15,637	—
Funds provided (used) by discontinued operations	842	(10,183)	1,372
Funds used by operations	(24,760)	(24,609)	(12,463)
FINANCING AND INVESTMENT ACTIVITIES			
Debt transactions:			
Increase (decrease) in long-term debt	9,553	(3,290)	2,644
Restricted cash	(2,175)	—	—
Increase in notes payable	6,318	—	—
Proceeds from plant disposal	—	13,292	—
Sale of note receivable	—	11,400	—
Decrease in treasury stock	1,799	211	—
Cash dividends	—	(837)	(2,116)
Foreign currency translation	(661)	(611)	(597)
Other	—	206	305
Discontinued operations:			
Proceeds from disposal	14,129	—	—
(Increase) decrease in investment	(5,021)	3,974	1,723
Acquisition of AVC Corporation	—	—	6,443
Funds provided by financing and investment activities	23,942	24,345	8,402
Decrease in cash	$ (818)	$ (264)	$ (4,061)

The accompanying notes are an integral part of these statements.

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 and transactions have been eliminated. Joint ventures are accounted for by the equity method.

2. Fiscal Year

The Company reports on a 52-53 week fiscal year. Fiscal years 1983 and 1981 were 52 week years; 1982 was a 53 week year.

3. Inventories

Inventories are stated at the lower of cost or market. Cost has been determined primarily under the last-in, first-out method (LIFO).

4. Depreciation

Depreciation is based on the estimated service life of the related asset. Depreciation is provided using the straight-line method for assets acquired after 1980 and accelerated methods for assets acquired prior to that year.

5. Employee's Retirement Plans

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. The Company funds the minimum amount required under ERISA.

6. Research and Development Costs

Costs of research and new product development amounted to $4,296 in 1983, $4,573 in 1982 and $4,261 in 1981. In 1983, these expenses were reclassified to selling and administrative expense from cost of sales. Prior years were reclassified for comparability.

7. 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 1983 amounted to $7,169.

8. Income (loss) Per Share

Income (loss) per share has been computed based on the weighted average number of common shares outstanding including options when their effect is dilutive. Stock options either did not have a material dilutive effect or were anti-dilutive for each of the periods presented.

9. Insurance

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

NOTE B—Inventories

Inventories consisted of the following:

Fiscal Year	1983	1982
Finished goods	**$39,893**	$36,139
Work in process	**10,719**	11,066
Raw material	**16,230**	12,585
	$66,842	$59,790

The cost of substantially all inventories is determined using the last-in, first-out method (LIFO). If the first-in, first-out method (FIFO) had been used, inventories would have been $9,326 and $8,436 higher in 1983 and 1982, respectively.

NOTE C—Property, Plant and Equipment

Property, plant and equipment, at cost, is summarized as follows:

Fiscal Year	1983	1982
Land	**$ 1,682**	$ 1,696
Buildings	**32,564**	32,539
Machinery and equipment	**91,977**	87,424
Construction in progress	**3,839**	2,800
	130,062	124,459
Less accumulated depreciation	**80,180**	75,154
	$49,882	$49,305

NOTE D—Debt

Borrowings consist of the following:

Fiscal Year	1983	1982
Revolving credit agreement	**$42,000**	$40,999
Industrial revenue bonds	**17,380**	9,365
Notes payable	**10,837**	3,443
Capitalized leases	**2,471**	3,017
Other	**453**	446
Total borrowings	**73,141**	57,270
Less current maturities	**11,899**	9,410
Long-term debt	**$61,242**	$47,860

The revolving credit agreement entered into March 25, 1983 was amended as of February 28, 1984 to provide for additional borrowings of $9,000, up to a total of $53,000 through July, 1984. Thereafter, there are scheduled commitment reductions of $1,300 monthly through February, 1985. The commitment is further reduced by $1,500 in August, 1984 and $500 in February, 1985. There is also a seasonal facility reduction of $7,000 from September 30, 1985 through January 1, 1986. The revolver bears interest at prime plus one percent, except for $20,000 through January 31, 1985 and $17,500 thereafter on which the rate is 9.85%.

Borrowings under the revolver are secured by substantially all assets not pledged under other agreements including domestic trade accounts receivable, inventories and certain property, plant and equipment. The agreement prohibits payment of dividends and requires, among other items, maintenance of minimum amounts of working capital and net worth.

On January 31, 1984, the Company signed an $8,300 note. The note is payable, commencing July 31, 1984, in eight equal monthly installments of approximately $1,040 plus interest which accrues at the rate of 12% on the unpaid principal balance. The note is secured by certain inventories.

On August 1, 1983, the Company sold $9,525 of industrial revenue bonds. The bonds mature in 1993, bear interest at the rate of 68% of prime, and are guaranteed by a fully secured letter of credit. The bonds are also collateralized by a new technical development center and manufacturing facility. Restricted cash of $1,924 reflected in the accompanying financial statements relates to these bonds. The cash may be used only to fund production of the technical development center and manufacturing facility.

Under the letter of credit agreement, the Company is required to maintain a $10,000 cash collateral account. The $10,000 was borrowed under a loan agreement which requires the Company to make monthly payments of $83 plus interest through January 1, 1986, and a balloon payment of $7,120 on February 1, 1986. Interest on the loan accrues at a rate equal to 1½ percent over prime. Funds on deposit in the cash collateral account earn interest at a rate which approximates the treasury bill yield. The cash collateral and loan are reflected net (as a reduction in long-term debt) in the accompanying financial statements.

Other industrial revenue bonds bear interest at rates ranging from 6.5% to 7.25%. These bonds are collateralized by certain property, plant and equipment.

Aggregate principal payments on borrowings after 1984 are: 1985, $4,622; 1986, $41,508; 1987, $1,304; 1988, $1,057; and thereafter $12,751.

NOTE E—Dispositions

In August 1983, the Company sold the combined operations of its Modulus Fastener and Milford Rivet and Machine Divisions. Modulus was acquired in 1981 as part of the AVC Corporation. A plan to divest the Modulus Fastener Division was adopted in 1982 and net income was charged $16,173. Operating results of both divisions are reported as discontinued operations. Sales from these businesses were $35,818, $62,983 and $64,609 in 1983, 1982 and 1981, respectively.

Proceeds from the sale included $14,500 in cash, a one-year $3 million non-interest bearing secured note, and 40,000 shares of the buyer's non-voting preferred stock. The sale resulted in an after-tax gain of $4,150.

In 1983, net income was charged $1,300 for estimated losses on the liquidation of the Company's Australian operations.

In 1982, the Company sold certain assets of its custom-engineered materials business. The transaction resulted in a non-operating profit before taxes of $1,658. 1982 sales and operating income were $15,800 and $1,455, respectively.

NOTE F—Plant Restructure

In the fourth quarter of 1983, the Company adopted a plan to restructure its dry brake business at the Stratford facility. The objective of the plan is to reduce manufacturing costs. A non-recurring charge of $4,000 was made against income. The charge includes a provision for the write-down of certain manufacturing and electronic data processing equipment to net realizable value, employee-related costs and reorganization and facilities rearrangement costs. The restructure is expected to be completed within two years.

NOTE G—Litigation

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 January 1, 1984 there were 14,936 lawsuits. The tables below present a summary of the activity in these lawsuits over the past three years.

Since 1941, the Company has continuously purchased, in varying amounts and from a number of carriers, products liability insurance coverage totaling approximately $395,000. 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

(000's omitted)

approximately 39% of the costs associated with the asbestos-related litigation. To clarify the coverage issues, a Declaratory Judgment Action was commenced in 1978 involving the Company, its four primary level insurers, and one excess carrier. In September, 1983, the Court issued a preliminary ruling which, subject to finalization and appeal (if any), will afford the Company broad access to the entire insurance pool.

Pending finalization of the September ruling, and in order to provide the Company with immediate financial relief, the court ordered, effective November 14, 1983, an interim funding arrangement requiring certain of the Company's primary carriers to assume, from that date forward, substantially all liability and defense costs associated with asbestos-related litigation. The funding order, as subsequently amended in February, 1984, leaves intact the Company's defense network and also provides for paying national coordinating counsel. The order will expire at the earliest of (i) issuance of a final order by the trial court, (ii) exhaustion of uncontested liability limits by any carrier subject to the order, or (iii) November 14, 1984. The Court has the authority to modify or extend the interim funding arrangement, and a final order is anticipated in 1984. Based on the above, the Company will not accrue for the liability and defense costs it would have otherwise been forced to absorb. Such costs approximated $6,700, $7,500, and $6,500 in 1983, 1982 and 1981, respectively. Nor has the Company accrued for any potential reimbursement from insurance carriers of asbestos-related litigation costs previously paid by the Company.

Fiscal Year	**1983**	1982	1981
CLAIMS			
Pending at beginning of year	**11,768**	8,719	5,194
Received during year	**5,308**	4,494	4,093
Settled or otherwise disposed of	**(2,140)**	(1,445)	(568)
Pending at end of year	**14,936**	11,768	8,719
TRIAL ACTIVITY			
Verdicts for the Company	**4**	23	7
Losses	**7***	13*	5*
Total trials	**11**	36	12

*23 verdicts currently under appeal

Fiscal Year	**1983**	1982	1981
AVERAGE COSTS PER CASE SETTLED OR DISPOSED (in actual dollars)			
Average settlement cost	**$3,754**	$3,364	$5,267
Average cost (including defense costs) per case disposed	**$6,524**	$6,499	$9,394

TOTAL ASBESTOS RELATED EXPENSES

The following table presents the Company's share of the defense and indemnity costs for asbestos litigation, together with related insurance and workers' compensation expenses, for each of the three years ended:

Fiscal Year	**1983**	1982	1981
Included in operating profit	**$2,004**	$ 1,872	$1,912
Non-operating expense	**7,287**	9,077	6,416
	$9,291	$10,949	$8,328

While the Company is seeking to reasonably determine its liability, it is not possible to predict with any degree of certainty the number of lawsuits still to be filed or the cost after insurance recoveries of settling and defending existing and future cases. Therefore, no liability has been recorded in the financial statements and such costs are expensed as incurred.

Other legal proceedings pending against the Company include an anti-trust action, several discrimination claims by discharged employees, litigation concerning the sale of a plant, 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.

NOTE H—Income Taxes

At the end of 1983, the Company had net operating loss and investment tax credit carryforwards of $44,000 and $2,000 respectively. The net operating loss and investment tax credit carryforwards will begin to expire in 1992 and 1989, respectively. The tax expense for 1983 consisted primarily of statutory minimum taxes.

The tax benefit for 1982 consisted primarily of a $2,149 tax refund resulting from the utilization of tax loss carrybacks reduced by the write-off of deferred tax benefits of $2,049.

The 1981 net tax expense of $2,400 consisted of the normal tax provision on continuing operations of $3,194 net of $794 of tax benefits from discontinued operations.

NOTE I—Employee Stock Options

The Company's 1980 Non-Qualified Stock Option Plan provides for the grant of options for up to 300,000 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 and all incentive stock options which are exercisable one year from grant. All options expire 10 years after grant.

The Plan was amended, subject to shareholders approval at the 1984 Annual Meeting, to increase the number of shares available for grant by 300,000 shares.

Changes in stock options for the three year period ended January 1, 1984, are as follows:

	Shares	Option Price Per Share ($)
Options outstanding December 28, 1980	89,000	18.25 to 28.38
Exercised	(4,000)	18.25
Cancelled	(12,000)	18.25
Options outstanding December 27, 1981	73,000	23.75 to 28.38
Granted	144,600	12.50
Cancelled	(5,750)	12.50
Options outstanding January 2, 1983	211,850	12.50 to 28.38
Granted	61,325	12.50 to 12.75
Cancelled	(13,700)	12.50
Options outstanding January 1, 1984	259,475	12.50 to 28.38

There were 123,958 options exercisable at January 1, 1984; options exercisable at January 2, 1983 and December 27, 1981, were 59,200 and 54,600, respectively.

NOTE J—Employees' Retirement Plans

Pension expense charged to continuing operations amounted to $3,126 in 1983, $3,958 in 1982 and $5,346 in 1981, including amortization of past service costs. In 1982, assets of certain pension plans were invested in a dedicated bond fund whose maturities closely match the amounts and timing of future pension payments to employees retired prior to 1982. The higher yield resulting from this investment decreased continuing pension expense by approximately $800 annually and the actuarial present value of accumulated plan benefits by $8,000 in 1982.

Accumulated benefits and net assets for the Company's defined benefit plans are presented below:

	January 1, 1983	January 1, 1982
Actuarial present value of plan benefits:		
Vested	**$55,124**	$53,119
Non-vested	**3,286**	3,734
Total benefits	**$58,410**	$56,853
Net assets available for benefits	**$57,198**	$52,098

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8.5%, except on the dedicated bond fund which earns a rate of 14%.

NOTE K—Commitments and Contingencies

Rental expenses amounted to $2,245 in 1983, $1,918 in 1982 and $1,672 in 1981. The approximate minimum rental commitments under non-cancellable leases at January 1, 1984 were as follows: 1984, $1,725; 1985, $1,402; 1986, $1,201; 1987, $881; 1988, $860; and $3,824, thereafter.

The Company has an employment agreement with an executive officer that provides for certain benefits including early retirement, supplemental pension and compensation in the event of a change in control of the Company. The maximum amounts payable under this agreement could aggregate $2,000.

The Company has guaranteed the difference between the stated interest rate and the prime rate on a note receivable sold in 1982. The Company is also contingently liable as guarantor with respect to $1,700 financing on a plant sold in 1982.

NOTE L—Supplementary Financial Statement Detail

Fiscal Year	**1983**	1982
ACCRUED LIABILITIES		
Salaries and wages	**$ 4,238**	$ 3,749
Pension costs	**3,025**	3,138
Plant restructure	**1,500**	—
Accrued taxes	**4,263**	5,225
Other	**15,280**	13,163
	$28,306	$25,275

Fiscal Year	**1983**	1982	1981
OTHER INCOME, (EXPENSE) NET			
Interest income	**$ 273**	$1,488	$1,871
Other	**(548)**	(253)	178
	$(275)	$1,235	$2,049

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

(000's omitted except share and market data)

NOTE M—Business Segment Information

During 1982 and 1983, the Company disposed of certain operating divisions and sold certain product lines, (See Note E). All remaining operations are classified as energy absorption and transmission products.

Information about the Company's foreign operations is presented below:

Fiscal Year	**1983**	1982	1981
Sales	**$33,286**	$34,505	$29,466
Income from continuing operations before income taxes	**165**	671	1,326
Identifiable assets	**$20,930**	$22,743	$21,198

NOTE N—Summarized Quarterly Financial Data (Unaudited) (a)

	13 Weeks Ended			
1983	April 3	July 3	October 2 (b)	January 1 (c)
Net sales	$56,724	$63,165	$57,503	$60,870
Gross profit	14,752	17,932	15,886	14,968
Net income (loss) from continuing operations	(4,006)	617	(3,194)	(9,407)
Net income (loss)	(3,641)	983	710	(9,537)
Income (loss) per share: (f)				
Continuing operations	(1.47)	.23	(1.15)	(3.32)
Net income	(1.34)	.36	.26	(3.37)
Dividends per share	—	—	—	—
Market range:				
—high	12⅞	14	13⅞	14
—low	9⅜	10⅜	11	11⅜

	13 Weeks Ended			14 Weeks Ended
1982	March 28	June 27	September 26 (d)	January 2 (e)
Net sales	$69,246	$71,905	$51,200	$50,807
Gross profit	17,774	19,664	11,827	11,534
Net income (loss) from continuing operations	(314)	800	(3,553)	(6,824)
Net income (loss)	(1,316)	305	(8,291)	(27,748)
Income (loss) per share: (f)				
Continuing operations	(.12)	.30	(1.32)	(2.53)
Net income	(.49)	.12	(3.08)	(10.29)
Dividends per share	.15	.15	—	—
Market range:				
—high	18¼	13⅜	12⅝	11⅛
—low	10⅞	10¾	7	6⅞

(a) The discontinued operations of the Milford Rivet and Machine Division are excluded from all periods presented (See Note E).

(b) The third quarter 1983 includes a gain on the sale of discontinued operations of $4,280 and a $1,300 provision for the disposition of Australian operations (See Note E).

(c) The fourth quarter 1983 includes a profit of approximately $1,900 for inventory adjustments relating to physical inventory and LIFO reserves and charge of $4,000 for plant restructure (See Note F).

(d) The third quarter 1982 includes a profit before taxes of approximately $1,658 relating to a plant disposal (See Note E).

(e) The fourth quarter 1982 includes an after-tax provision for loss on disposal of discontinued operations of $16,173 (See Note E).

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

AUDITORS' REPORT

Board of Directors and Shareholders
Raymark Corporation

We have examined the consolidated balance sheets of Raymark Corporation and Subsidiaries as of January 1, 1984 and January 2, 1983 and the related consolidated statements of operations, shareholders' equity and changes in financial position for each of the fiscal years in the three-year period ended January 1, 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 discussed further in Note G 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.

In our opinion, subject to the effects on the financial statements of such adjustments, if any, that might have been required had the outcome of the matter discussed in the previous paragraph been known, the financial statements referred to above present fairly the consolidated financial position of Raymark Corporation and Subsidiaries at January 1, 1984 and January 2, 1983 and the consolidated results of their operations and changes in their financial position for each of the fiscal years in the three-year period ended January 1, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

ALEXANDER GRANT & COMPANY
Certified Public Accountants

New York, New York
February 10, 1984
(Except for Note D, as to which the date is March 2, 1984.)

FIVE-YEAR REVIEW OF OPERATIONS

(000's omitted, except share data)

Fiscal Year	1983	1982	1981	1980	1979
Operating Results					
Continuing operations:					
Sales	**$238,262**	$243,158	$277,914	$250,947	$268,082
Gross profit	**63,538**	60,799	75,039	57,941	65,638
Operating profit	**3,777**	2,948	16,231	3,269	11,277
Asbestos related expenses	**7,287**	9,077	6,416	4,728	1,077
Interest expense	**6,790**	6,955	5,608	4,519	4,862
Net income (loss)	**(15,990)**	(9,891)	3,062	(7,402)	3,937
Discontinued Operations:					
Income (loss) from operations	**355**	(10,986)	(76)	1,127	1,243
Income (loss) on disposal	**4,150**	(16,173)	—	—	—
Net Income (loss)	**(11,485)**	(37,050)	2,986	(6,275)	5,180
Per Share of Common Stock					
Continuing operations	**(5.80)**	(3.67)	1.19	(3.19)	1.70
Discontinued operations	**1.64**	(10.07)	(.03)	.49	.54
Net Income (loss)	**(4.16)**	(13.74)	1.16	(2.70)	2.24
Balance Sheet					
Total assets	**183,308**	166,564	227,060	180,289	181,115
Working capital	**62,520**	56,894	91,833	64,860	73,611
Long-term debt	**61,242**	47,860	49,667	42,933	49,969
Total shareholders' equity	**53,023**	62,865	101,152	93,248	103,433
Property, Plant and Equipment					
Capital expenditures	**8,662**	12,104	15,850	10,084	9,621
Depreciation	**$ 7,368**	$ 7,717	$ 8,327	$ 8,610	$ 9,072
Average Shares Outstanding	**2,758,606**	2,696,860	2,569,220	2,321,722	2,309,028
Dividends	**$ —**	$ .30	$ .85	$ 1.60	$ 1.49

SUPPLEMENTAL INFORMATION ON THE EFFECTS OF CHANGING PRICES (UNAUDITED)

(000's omitted, except share data)

The accompanying supplemental data present the effects of general inflation (constant dollar) and changes in specific prices (current costs) on the Company's operations.

The primary financial information for inventories, property, plant and equipment, cost of sales, and depreciation expense have been recalculated for general inflation by use of the average of the Consumer Price Index for all Urban Consumers. The computations of changes in specific prices (current costs) with respect to inventories, have been based upon current prices for major raw materials, current labor and overhead rates. Current costs of property, plant and equipment, the related accumulated depreciation thereon and the current period's depreciation expense have been determined by applying published indices of construction costs to the historical amounts. Under both the constant dollar and current cost methods, no adjustments to income

(Continued on next page)

CONSOLIDATED STATEMENT OF EARNINGS ADJUSTED FOR CHANGING PRICES FOR THE YEAR ENDED JANUARY 1, 1984

	As Reported in the Primary Statements (Historical Dollars)	Adjusted for General Inflation (Average 1983 Constant Dollars)	Adjusted for Changes in Specific Prices (Average 1983 Current Costs)
Net Sales	$238,262	$238,262	$238,262
Cost of Sales	174,724	177,574	176,371
Selling and administrative	59,761	60,136	60,139
Operating profit (loss)	3,777	552	1,752
Other income (expense) - net	(12,862)	(12,862)	(12,862)
Interest expense	(6,790)	(6,790)	(6,790)
Income tax provision	(115)	(115)	(115)
Net loss from continuing operations	$ (15,990)	$ (19,215)	$ (18,015)
Gain attributable to holding net monetary liabilities		$ 2,412	$ 2,412
Increase (decrease) in value of inventories and net property, plant and equipment held during the year *:			
Measured in current costs			$ 3,073
Measured in constant dollars			5,584
Increase in current costs over increase in constant dollars			$ (2,511)
Depreciation and amortiziation included in:			
Cost of sales	$ 6,296	$ 8,200	$ 8,209
Selling and administrative	1,072	1,447	1,449
Total	$ 7,368	$ 9,647	$ 9,658

* At January 1, 1984, the current cost of inventories was $76,168 and current cost of property, plant and equipment, net of depreciation was $70,948.

SUPPLEMENTAL INFORMATION ON THE EFFECTS OF CHANGING PRICES (UNAUDITED)

(000's omitted, except share data)

taxes have been made in determining net income from continuing operations.

The data, as adjusted for changing prices, is not a precise measurement of the effect of changing prices and does not reflect the effect of other economic factors on the Company's current costs of operation. The Company has not attempted to quantify the total impact of inflation and other economic changes on its business because of the many unresolved conceptual problems such as technological and productivity changes. Management cautions that the presented adjusted financial data does not purport to reflect the Corporation's earnings and should not be interpreted to represent either the current financial position of the Company or the amounts that could be obtained upon the disposition of its assets.

FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA ADJUSTED FOR CHANGING PRICES (a)

	1983	1982	1981	1980	1979
Net Sales:					
Historical dollars	$238,262	$243,158	$277,914	$250,947	$268,082
Constant dollars	238,262	251,061	304,649	303,520	368.077
Income (loss) from continuing operations:					
Historical dollars	(15,990)	(9,891)	3,062	(7,402)	3,937
Constant dollars	(18,472)	(15,657)	(8,836)	(14,663)	(8,297)
Current costs	(17,271)	(13,741)	(6,641)	(18,509)	(7,278)
Income (loss) per share from continuing operations (b):					
Historical dollars	(5.80)	(3.67)	1.19	(3.19)	1.70
Constant dollars	(6.70)	(5.80)	(3.44)	(6.32)	(3.59)
Current costs	(6.20)	(5.09)	(2.59)	(7.97)	(3.15)
Gain attributable to holding net monetary liabilities	2,412	2,632	4,166	3,958	4,941
Excess of current cost over constant dollar increase in value of inventories and net property, plant and equipment	(2,511)	205	1,903	(594)	6,244
Shareholders' equity (net assets) at year end:					
Historical dollars	53,523	62,865	101,152	93,248	103,433
Constant dollars	80,258	97,665	135,121	113,266	139,116
Current costs	80,405	96,317	141,218	114,611	145,188
Dividends declared per share (b):					
Historical dollars	—	.30	.85	1.60	1.49
Constant dollars	—	.31	.93	1.94	2.05
Market price per share at year end (b):					
Historical dollars	13 1/8	10 1/2	17	29	22 3/8
Constant dollars	13 1/8	11	19	35	31
Average CPI-U (1967 = 100)	298.5	289.1	272.3	246.8	217.4

(a) In average 1983 dollars, except historical amounts.
(b) Restated to give retroactive effect of 10% stock dividends paid in 1979.

DIRECTORS

David A. Wingate*
Chairman of the Board

Chairman and
Chief Executive Officer
Hi-Shear Industries Inc.

Theodore W. Brooks*°
Former Senior Vice President
The Chase Manhattan Bank, N.A.

Anthony E. Mirti
President and Chief
Operating Officer
Hi-Shear Industries Inc.

Gilbert C. Mott
Former Vice President
Olin Corporation

John G. Rohrbach°
Chairman/Treasurer
Green Designs, Inc.

Frederick J. Ross*

Richard A. Stark*
Lawyer, Partner
Milbank, Tweed, Hadley, & McCloy

D. Lee Tobler
Group Vice President and
Chief Administrative and
Financial Officer
Zapata Corporation

Ealan J. Wingate
Vice President
Hi-Shear Industries Inc.

*Executive Committee Member
°Audit Committee Member

CORPORATE OFFICERS

Frederick J. Ross
President and
Chief Executive Officer

Wade W. Cloyd
Vice President

Harry D. Day
Vice President,
Secretary and
General Counsel

Rollance E. Olson
Vice President

Craig R. Smith
Vice President

Pearson M. Spaght
Vice President

John D. Kutzler
Treasurer

John D. Lutsi
Controller

REGISTRAR

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of New York
23 Wall Street
New York, New York 10015

TRANSFER AGENT

The Chase Manhattan Bank, N.A.
Chase Manhattan Plaza
New York, New York 10015

CORPORATE HEADQUARTERS

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(203) 371-0101

SHAREHOLDERS MAY OBTAIN A COPY OF FORM 10-K WITHOUT CHARGE UPON WRITTEN REQUEST TO THE CORPORATE SECRETARY.

Raymark Corporation is an Equal Opportunity Employer. It is our policy to assure fair and equitable treatment to all employees and applicants for employment without regard to handicaps, race, color, religion, age, sex, national origin, marital status, or veteran status. Affirmative Action Programs have been established to implement and monitor this policy and to ensure nondiscrimination. Compliance with ERISA (Employee Retirement Income Security Act) requirements continues to be maintained. As changes arise and as new regulations develop, all pension plan participants will be kept fully informed.

Raymark CORPORATION