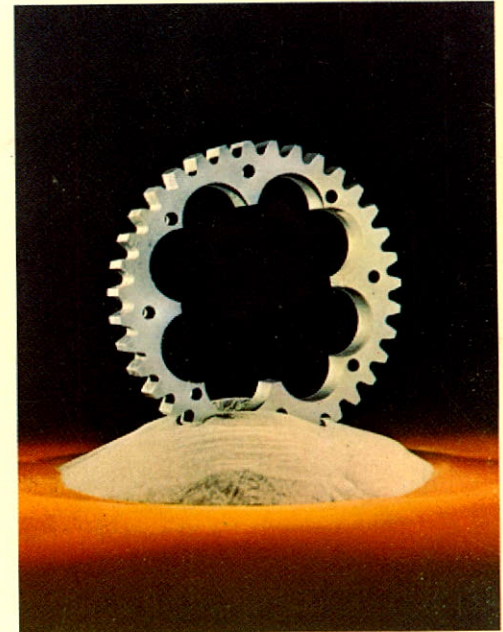
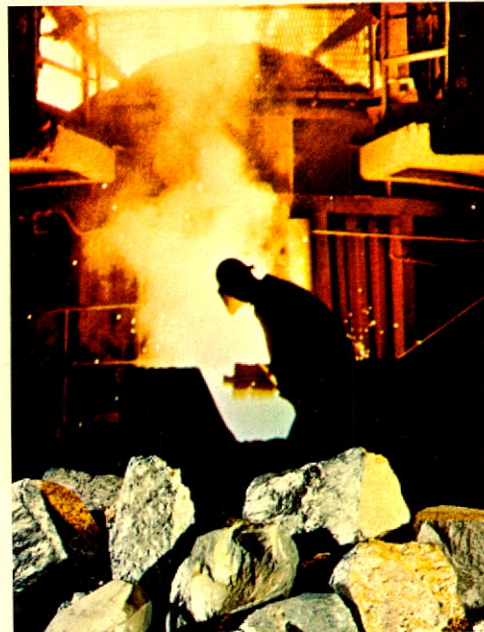
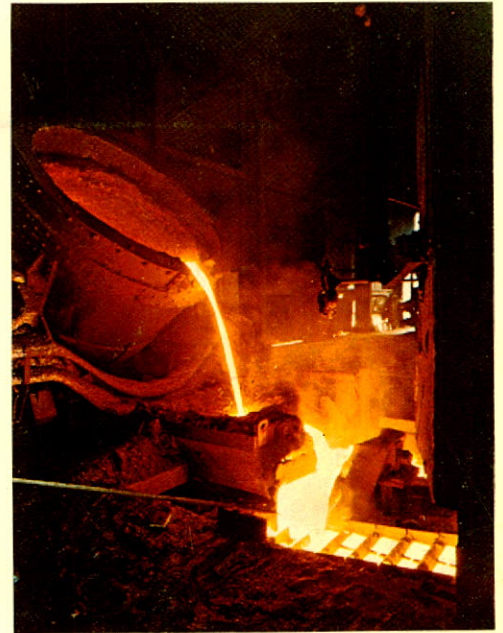
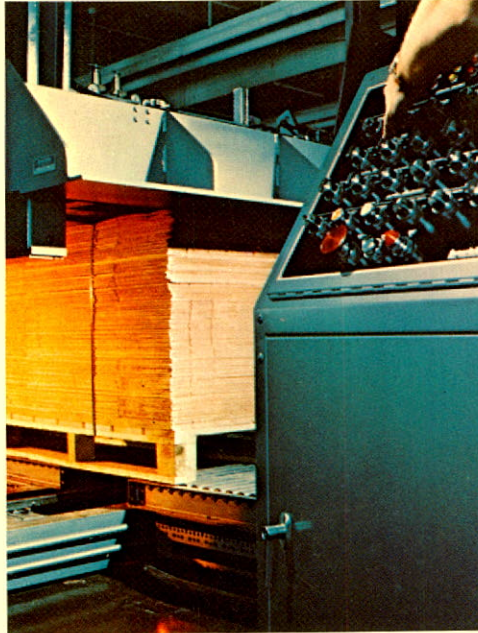
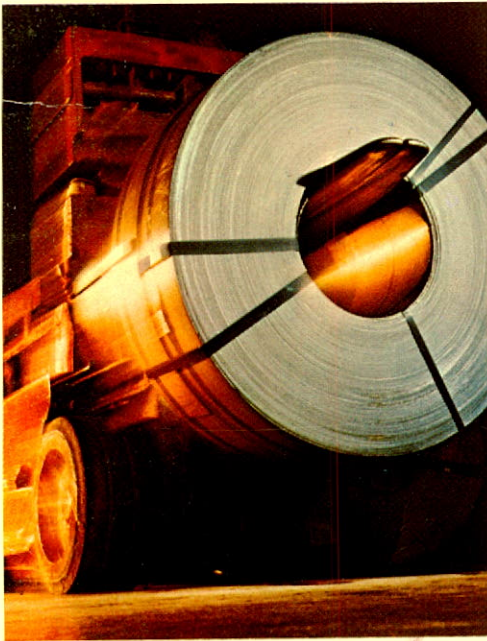
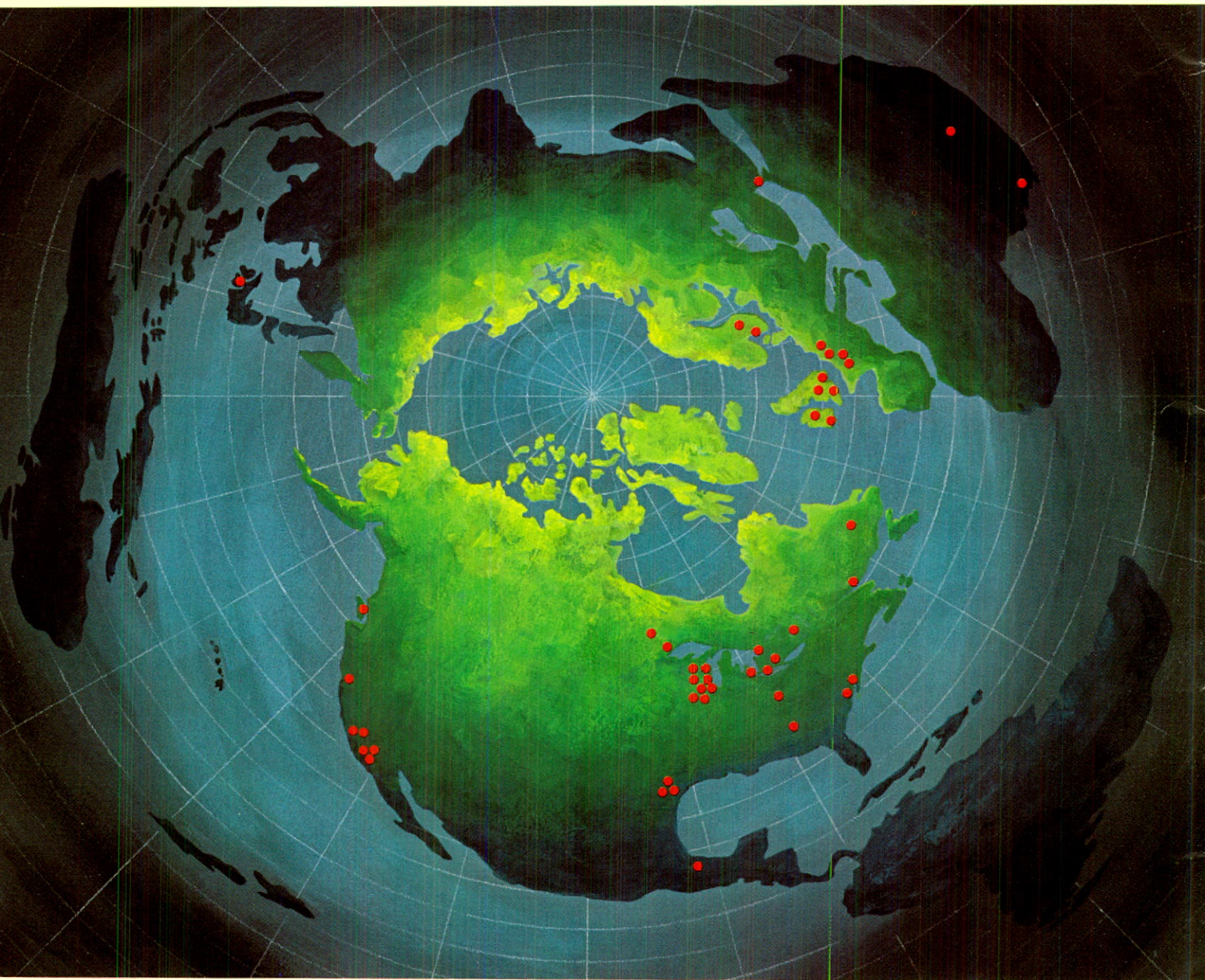


interlake

ANNUAL REPORT 1968



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● *Interlake plants, warehouses, affiliates and licensees*

HIGHLIGHTS OF 1968

- Sales reached record: \$285,571,000
- Net income: \$12,556,000
- Per share income: \$2.80
- Capital expenditures: \$13,752,000
- Acquired three related Dallas furniture companies
- Acquired leading Canadian storage systems producer
- Acquired two-thirds interest in Hoeganaes Corporation, a leading producer of powdered metals in North America
- Introduced automatic storage and retrieval system
- Completed West Coast strapping manufacturing plant
- Expanded market potential in Europe and the Far East
- New technical center nearing completion
- Product mix continues to change—iron and steel mill products account for slightly less than half company volume

FOR THE YEAR (In thousands)

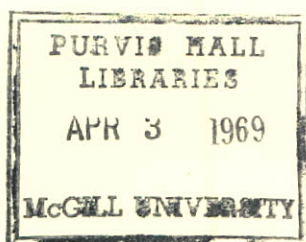
	1968	1967
Net sales.....	\$285,571	\$256,411
Net income.....	12,556	14,133
Cash flow.....	24,199	25,355
Capital expenditures.....	13,752	15,739
Common stock dividends.....	8,078	8,072

AT YEAR END (In thousands)

Working capital.....	\$ 74,365	\$ 69,170
Current ratio.....	2.7 to 1	2.8 to 1
Property, plant, and equipment—net.....	\$153,965	\$142,039
Long-term debt, less current maturities.....	53,047	28,268
Shareholders' equity.....	196,122	191,546

PER SHARE STATISTICS

Net income.....	\$ 2.80	\$ 3.15
Cash dividends paid.....	1.80	1.80
Shareholders' equity at year end.....	43.69	42.69



TRANSFER AGENTS

The First National Bank of Chicago, Chicago, Illinois
Bankers Trust Company, New York, New York

REGISTRARS

The Continental Illinois National Bank
and Trust Company of Chicago, Chicago, Illinois
Irving Trust Company, New York, New York

GENERAL COUNSEL

Jones, Day, Cockley & Reavis, Cleveland, Ohio

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co., Chicago, Illinois

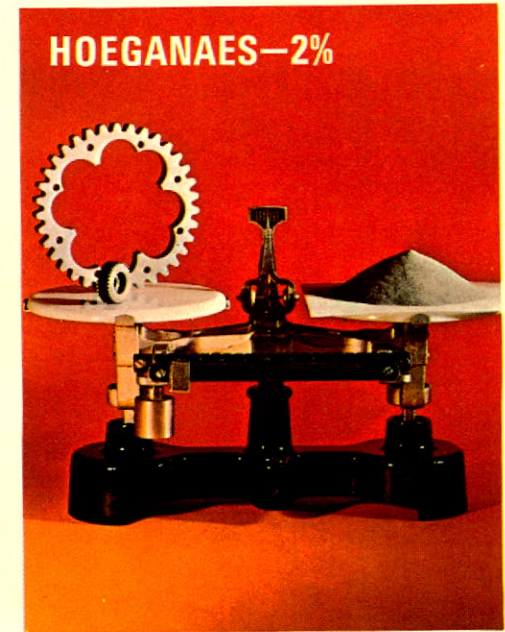
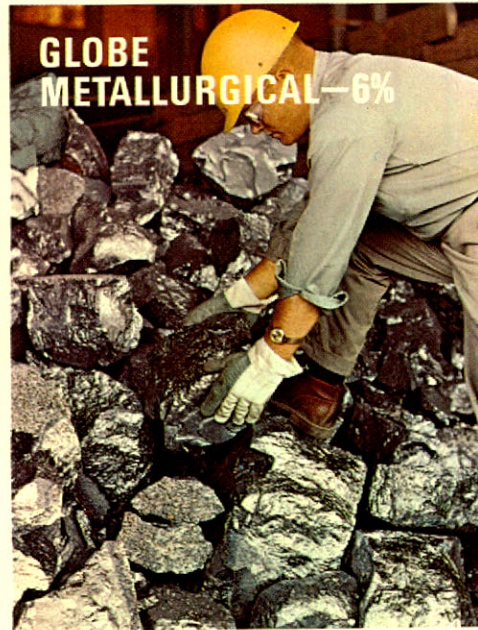
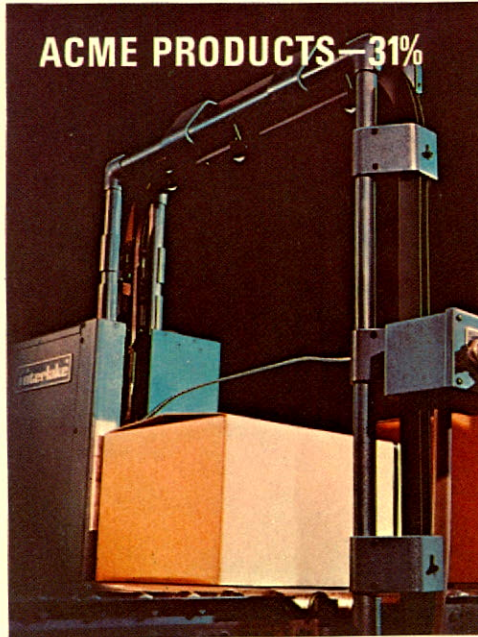
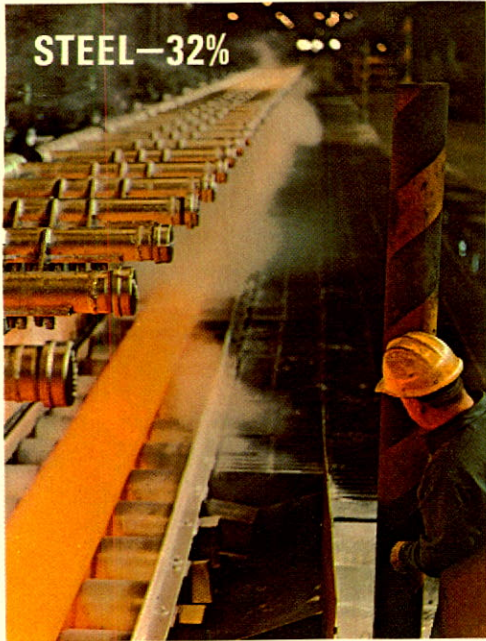
ANNUAL MEETING

Shareholders are invited to attend the Company's 1969 Annual Meeting at 10:00 a.m. (N. Y. City time), April 24, 1969, at Bankers Trust Company, 485 Lexington Avenue, New York City. Proxy statements for the meeting will be mailed in late March.

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INTERLAKE'S BUSINESS*



* About 3% of company volume is from sources other than the division sales percentages shown above.

TO OUR SHAREHOLDERS:

Interlake's business during 1968 was highlighted by two major developments: an aggressive policy to accelerate the company's growth through acquisitions and internally developed programs, and negotiations for a new three-year labor contract affecting primarily the company's iron, steel and ferroalloy operations.

1968 RESULTS

Net sales in 1968 reached a record \$285,571,000, an increase of 11.4% over 1967 sales of \$256,411,000. Each of the company's divisions participated in this improvement, with the exception of the Iron Division. Newly acquired companies, from dates of purchase, contributed \$10,381,000 to the overall sales increase of \$29,160,000.

Net income for 1968 amounted to \$12,556,000, or \$2.80 per common share, compared with \$14,133,000, or \$3.15 per share in the preceding year. This represents a decline of \$1,577,000 or \$.35 per share.



Reynold C. MacDonald, left, and G. Findley Griffiths at the new Technical Center nearing completion in Riverdale, Illinois.

The company's 1968 performance was affected by several factors. One of the most important was the 10% income tax surcharge, which amounted to \$905,000, or \$.20 per common share.

In addition, the investment credit, in 1968, amounted to \$787,000, or \$.17 per share, compared with \$1,450,000, or \$.32 per share in 1967—a decrease of \$.15 per share.

The combination of the 10% income tax surcharge and the lower investment credit totaled \$.35 a share, equal to the decline experienced in 1968 per common share earnings.

In this connection, Interlake's accounting policy for recording depreciation and investment credit was the same for both 1967 and 1968.

The year's results were also influenced by the erratic sales and operating patterns that occurred in our iron, steel and ferroalloy divisions. High sales and operating levels in the first half contributed to earnings which exceeded those for the comparable period in 1967. However, the improvement was more than offset during the last half when margins, already under pressure due to the abnormally low sales and operating levels, were further affected by higher employment cost, the increased cost of goods and services purchased, a blast furnace reline and reduced selling prices of flat hot rolled steel mill products.

On the other hand, earnings were sustained by the continued high level of sales and production maintained throughout the year by the Acme Products and Howell divisions. Benefits were also realized from acquisitions during the year.

ACQUISITIONS

In our 1967 annual shareholders' report we pointed out that, in addition to internally developed programs, carefully planned and selected acquisitions or mergers offered additional opportunities for accelerating Interlake's growth as well as diversifying the company's product lines and its markets. Significant progress was made during 1968 to activate this policy.

In June, we acquired three related Dallas, Texas, furniture companies—Falcon Mfg. Company, McNeff Industries, Inc., and Plasco, Inc. These firms produce dinette furniture for the home and also serve other markets with more than ordinary growth possibilities. These companies

enable the Howell furniture division to capitalize on these growing markets and further diversify its product line.

In September, Interlake acquired Redirack Industries, Limited, of Toronto, a leading Canadian producer of a diversified line of light and heavy-duty storage racks. This acquisition, in conjunction with Interlake's long established Canadian facilities for the production of strapping, will enable us to provide Canadian industry with integrated warehousing and packaging systems.

In August, negotiations were concluded with the Swedish firm, Hoganas AB, to purchase a two-thirds interest in its wholly-owned U.S. subsidiary, Hoeganaes Corporation of Riverton, New Jersey. The remaining one-third interest has been retained by Hoganas AB, which pioneered the commercial development of the powdered metal industry.

Powdered metal represents an entirely new and rapidly expanding technology in the metals field, though its manufacturing processes are closely related in many respects to those of our iron and steel business. Powdered metal is one of the country's fastest growing industries, having an annual 20% increase in volume during recent years.

This acquisition will enable Interlake to obtain an important position in a number of new markets which offer unusual opportunities for exceptional growth.

These acquisitions, which involved an investment of \$21,111,000, are discussed in more detail in the following sections of this report.

INTERNAL GROWTH

Through its Acme Products Division, Interlake has long been identified with the packaging and shipping, storage and materials handling businesses, domestically as well as internationally. A number of steps were taken in 1968 to improve our participation in both rapidly growing markets.

Following two years of intensive research and development activity, we have introduced a new line of both manual and automated retrievers. This equipment is designed to handle palletized materials in warehouses and factories more efficiently, in less time and space, with fewer personnel and with less damage to merchandise and storage equipment than many other present-day methods. This new equipment becomes an important addition to the company's line of fully adjustable storage racks and materials handling products. These, in conjunction with

our automated strapping machines, constitute important elements in an integrated storage and packaging system, and provide opportunity for further automating storage, materials handling and packaging operations.

Demand for our strapping and stitching systems has experienced steady growth in western markets. To better serve the requirements of these customers, a new plant for the production of steel strapping has been built in Pittsburg, California, near San Francisco.

During the summer months, negotiations were consummated to extend the market abroad for the strapping systems developed by our Acme Products Division. A long-term marketing and technical assistance agreement was announced in June with Cyklop-Gesellschaft of Cologne, Germany, which will distribute the division's strapping systems in West Germany and Sweden. Cyklop has been a major factor for many years in supplying these important markets with packaging and shipping equipment. In July, a licensing agreement was also signed with Katsuyama & Company, Ltd., of Kobe, Japan, for the distribution of the division's strapping systems in Japan and Okinawa.

LABOR NEGOTIATIONS

The negotiations for a new labor contract and the possibilities of a steel strike had a profound effect on several important segments of the company's business during 1968. As early as the fourth quarter of 1967, our customers began accumulating inventories large enough to assure production continuity in the event a strike materialized after July 31, 1968, the contract expiration date. This affected our iron, steel and ferroalloy operations, as well as those operations of our Acme Products Division, whose employees were covered by the expiring contract.

This inventory accumulation created abnormally high sales levels which, in turn, resulted in a high level of operations during the first seven months of the year, and reached a peak in the second quarter. In meeting this demand, extraordinary costs were incurred, including excessive overtime, reduced efficiency and the use of marginal facilities. In addition, we provided extended credit terms to our customers to assist them in carrying their excess inventories. In Interlake's case, this amounted to a maximum of \$9,500,000 over a 120-day period.

The costly effects of a strike were avoided with the sign-

ing of a new contract before the deadline. Terms of the new contract, the most expensive in the industry's history, will raise employment costs an estimated 18% over the three-year contract period.

The signing of the contract, however, was accompanied by a sharp drop in demand that reduced the operations of our iron, steel and ferroalloy facilities during August and September to 50% of capacity. A gradual improvement was experienced during the fourth quarter.

With negotiations completed and the contract cost increases evaluated, selected price increases were announced. But the low rate of operations, coupled with the surge in low priced imports, provided a poor background for effective price increases. Early in November, this was reflected by a substantial reduction in the published price of flat hot rolled steel, which remained in effect until the end of December and adversely affected fourth quarter earnings.

Imports of steel mill products, induced by the possibility of a strike, soared to new heights. Despite December's dock strike, 1968 imports amounted to 17,960,000 tons—an increase of 56% over the previous record of 11,500,000 tons imported in 1967. Equally significant, the 1968 imports accounted for 17% of estimated domestic steel consumption. In addition, these imports were valued at \$1,975,700,000 compared with a value of \$444,400,000 for the 2,170,000 net tons of steel exports. This resulted in a steel trade deficit for 1968 of \$1,531,300,000—a major contributor to the shrinkage experienced in this country's foreign trade surplus, which during the year declined to \$726 million from \$4.1 billion in 1967.

CAPITAL EXPENDITURES

A total of \$13,752,000 was spent on programs to expand our facilities and to maintain and improve the efficiency of our operations. This was somewhat below the \$15,739,000

spent in the previous year. The application of these expenditures is amplified in the sections that follow.

EMPLOYEE RELATIONS

Ten labor agreements were renegotiated during 1968 covering hourly employees at our Iron, Steel and related divisions. The new agreements provide for continuous operations in the affected areas until mid-1971.

Greater emphasis was placed on training and hiring people previously considered unemployable. Results thus far have been very encouraging.

It is also gratifying to report continued improvement in Interlake's safety programs. The increased emphasis placed on this important matter resulted in fewer injuries during 1968.

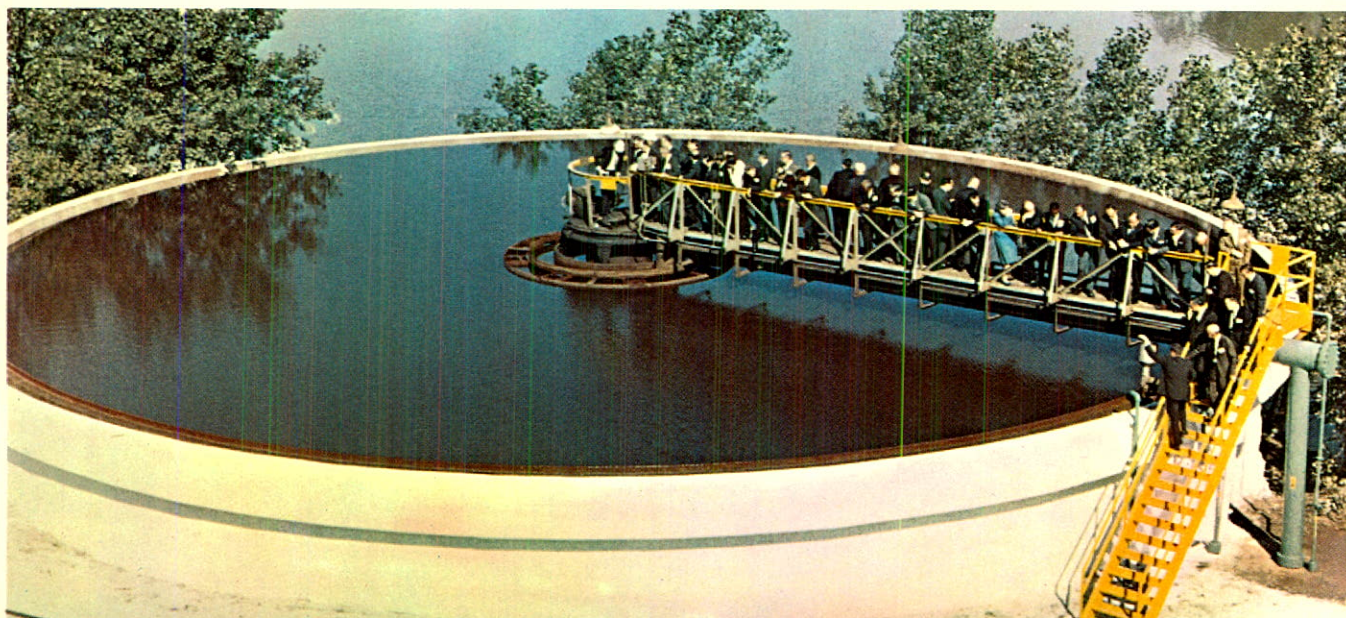
TECHNICAL CENTER

Work is nearing completion on the company's new technical center where research, engineering and new product development activities will be located. These activities will include ferroalloy technology, blast furnace, steel production and processing research, plus raw materials development and investigations into new coatings, metal forming, rolling and metallurgy. In addition, part of the center will also be devoted to a new products development laboratory.

POLLUTION CONTROL

The year was marked by continued progress in the company's efforts to control air and water pollution as programs previously engineered were either completed or are in varying stages of construction. Expenditures planned for the next three years are budgeted to cost about \$5,500,000.

Interlake's leadership efforts and basic research in pollution control activities were recognized late in 1968, when the Department of the Interior offered the company a grant of \$175,200 to defray part of the cost in building a



new water pollution control system developed by our engineering department for our blast furnace operations. The grant has been accepted, and when the system is completed, the new development will be available to other companies which have similar requirements.

CHANGING PRODUCT MIX

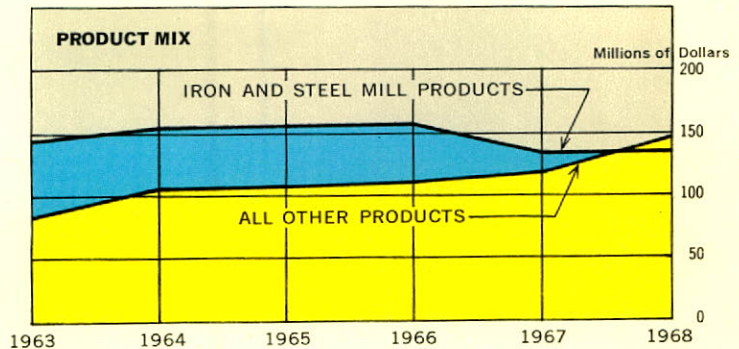
In ingot production, Interlake is about the 16th largest steel producer in the United States, and from the standpoint of sales, Interlake ranked 307th in *Fortune Magazine's* latest list of 500 largest industrial companies.

Though the steel industry has been confronted with many problems during recent years, it is, and will continue to be, a dynamic, aggressive and vital force in the United States.

Interlake's iron and steel operations, combined with its extensive raw materials, represent the company's major investment, and these operations account for a substantial portion of our sales and earnings. But Interlake's business is highly diversified and steadily becoming more so. Consequently, Interlake's results have long been, and are deliberately becoming less, dependent on the fluctuations of the iron and steel aspects of its business. Furthermore, it is important to realize that Interlake's other operations, particularly those of the Acme Products Division, provide a consistent market for a substantial tonnage of the hot and cold rolled steel produced by the company's steel operations. This, in turn, provides stability to our iron and steel operations, especially in periods of depressed steel demand such as that which prevailed in the latter part of the year. The diversification also provides the company with the incremental advantages that accrue from carrying a substantial percentage of its basic production to broadly diversified markets in a more highly finished state.

The chart on this page illustrates how our product mix has been changing in recent years and, in 1968—for the first time—iron and steel mill products accounted for slightly less than half of the total company sales volume. This may be a surprise to some who have considered Interlake almost exclusively in the iron and steel business.

We expect our selective diversification program will continue to broaden the company's base and create a positive impact on the growth of sales and earnings in the future.



OUTLOOK

The new year has started in an encouraging manner. Incoming orders for steel mill products continue to improve as customers resume their normal buying patterns. Assuming demand is sustained, we look forward to improved operating levels in 1969, free from the extreme and costly peaks and valleys experienced in 1968.

Initial response from the January furniture shows to the Howell Division's new line of dinette sets has been particularly favorable.

We look forward in 1969 to a continuation of the historical growth experienced by our Acme Products Division at home as well as abroad. A full year of benefits from the acquisitions previously mentioned will be realized.

Although we are optimistic over the prospects for the new year, we are also alert to the problem areas that confront us. These include the growing imbalance between employment cost increases and productivity, the cost-price squeeze and the steadily rising tide of foreign made products. To meet this situation many programs have been initiated, by all levels of management, to maintain and improve profit margins. These and other situations will receive concentrated attention throughout the year.

Recent years have been demanding ones for all of the men and women who comprise our organization. Their loyalty, their positive attitudes and their desire to maintain the company's progress forms the keystone for Interlake's continuing success. Their response to constantly changing challenges merits the shareholders' support.

G. F. Griffiths

Chairman

R. McDonald

President

February 10, 1969

Water Pollution Control Federation members toured the Riverdale plant's pollution control facilities during their 1968 annual meeting in Chicago. Here the group inspects a large water clarifier.

IRON AND STEEL

Interlake's Iron Division, in addition to managing the company's extensive raw material resources, is also the leading merchant iron producer in the United States. About 44% of the division's total output is used by the company's steel operations.

Of the remaining output, many grades of iron in pig form are marketed primarily to foundries and steel companies. Coke, coke oven gas and by-products are also sold.

Foundries use the iron for a vast range of castings, including engine blocks, automotive and locomotive parts, plus light and heavy machinery components. Interlake also has one molten iron customer who uses the hot metal to produce ingot molds.

The coal chemicals are sold to processors who convert these by-products into important ingredients for road tar, paint, solvents and thinners, weed killers and other insecticides, explosives, moth balls, artificial flavorings, perfume, chewing gum, drugs, creosote, fertilizers, aviation gas, pitch, plastics, artificial leather, disinfectants and many other items used everyday in the home and industry.

The market for merchant iron is declining. New materials, changing technologies and growing imports have generated the need for increased research into new uses and types of pig iron. Several possibilities are now being investigated which would utilize pig iron.

* * *

Interlake's Steel Division produced 1,075,000 ingot tons in 1968, which ranks Interlake in about 16th place in terms of annual production of steel in the United States.

The division's main products include hot and cold rolled flat carbon steel in strip, sheet, plate and bar categories; cold rolled spring steel; hot and cold rolled alloy and electric weld line pipe and spiral weld pipe.

Today, about 25% of Interlake's steel production is used internally for fabricated products marketed by the company's divisions. These include strapping, stitching and storage systems and furniture.

The largest portion of the company's production is sold by the division's aggressive marketing force to producers of automotive parts, appliances, farm implements, aircraft, rockets, missiles, electric motors and many other items.

As far as flat-rolled products are concerned, the largest percentage goes to parts manufacturers serving the automotive, trucking and transportation industries. Interlake

steel is used in frames, brake and suspension parts, power trains, electrical components, body parts, windshield wipers, railroad car components and other similar items.

About one-fourth of our flat-rolled products are used by agricultural implement manufacturers for tractor wheel rims, discs, plow sweeps, chains, and conveyor parts.

The remaining amount is used by many other industries, and the product list is long and varied. Some of the nation's communications networks depend on frames and relays made from Interlake steel. Other important customers include companies in the refrigeration and heating industry, steel processors and producers of lawn mower blades, ice and roller skates, garage door hardware, concrete form ties, business machine parts, sewing machines, shell cases and ammunition clips, pole line hardware and anchors, fire extinguishers and other pressure vessels, and hinges—to mention a few.

Interlake ships steel between the Atlantic and the Pacific, although the majority of shipments are within 500 miles of Chicago. The company's particular niche in the marketplace is its reputation as a specialty "made-to-order" steel-



The automotive and transportation industries are large markets for Interlake steel. It's used in many, many ways in cars and trucks.

PRODUCTS

maker with fast, on-time delivery. Interlake is also known as a company with particular capability in narrow width steel applications.

Research and product development with customers is an important activity of the division. At Riverdale, a new hot mill cooling system installed a year ago has been highly successful in helping improve quality and produce a higher strength, low-carbon steel. This year, a new descaling system has improved the product even further. At Newport, a new system has been installed for ultrasonic testing of line pipe—indicative of the customer-oriented philosophy under which the division operates.



Interlake steel is found in appliances, heating, air conditioning and many other kitchen and home products.

The missile on this F-101, plus parts for jet and other aircraft, contain products from Interlake's steel operations.

Pipe carrying gas and oil to consumers is a major product of Interlake's Newport, Kentucky, plant.

Farm machinery such as this combine may contain as many as a dozen parts manufactured from Interlake flat rolled steel.

Iron ore, crushed and screened from this hard taconite ore, is the raw material from which much Interlake iron and steel is produced.

PACKAGING AND SHIPPING SYSTEMS

Acme Products Division is one of the world's largest producers of packaging systems—strapping, stitching, stapling wire and tools and machines. Our strapping systems include many types and sizes of steel, nylon and polypropylene strapping as well as seals, plus an extensive selection of tools, ranging from simple hand-operated models to sophisticated, semi-automatic and automatic machines.

The division also produces a wide line of stitching machines and wire. These products offer similar efficiency and automatic operating features.

The division's products are marketed by a worldwide sales network that serves the complete industrial spectrum. The more important markets include metal and metal-working; foods and processing; textiles and wearing apparel; lumber and paper; furniture and appliances; machinery; graphic arts; brick and chemicals.

Because our systems are keyed primarily to labor and materials savings, industry today is constantly seeking new packaging equipment that is more sophisticated, easier to operate, faster, more efficient and more adaptable. Today's industrial customer demands much more reliability in packaging systems because equipment of this nature is usually at the heart of the customer's production operation, where downtime is costly in many ways. Thus, new product development is a constant challenge. At the same time, this challenge provides an excellent growth opportunity for new products that save time and money and speed up the complex problem of materials handling and distribution.

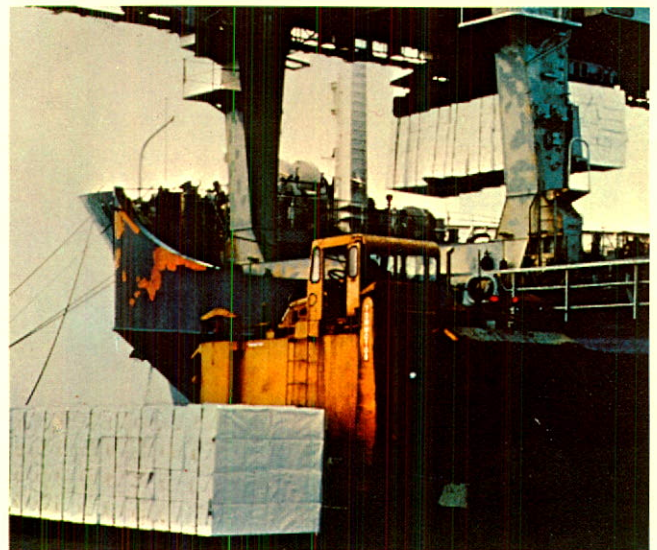
An excellent example of this lies in the company's development of disposable inflatable dunnage which, together with returnable rubber dunnage, provides an important product used to protect shipments in transit.

The potential for strapping and stitching systems is so promising that Interlake, in addition to expanding its domestic markets, is expanding its international business. Interlake affiliates and subsidiaries are already strong factors in Canada, Britain, France, and Central and South America. The recent agreements made with German and Japanese firms permit introduction and distribution of our strapping systems into Germany, Sweden, Japan and Okinawa.

Growth in domestic markets is such that the company is now establishing a separate sales force for strapping and another for stitching in areas of concentrated population, such as New York and Chicago.

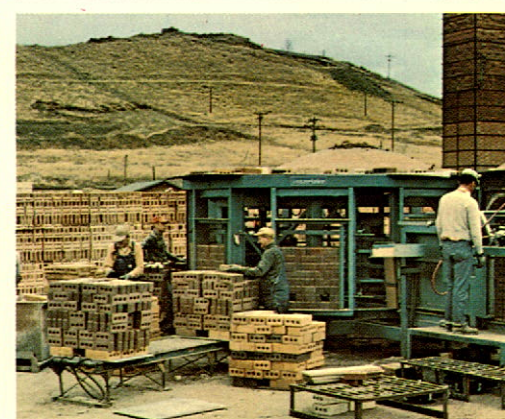
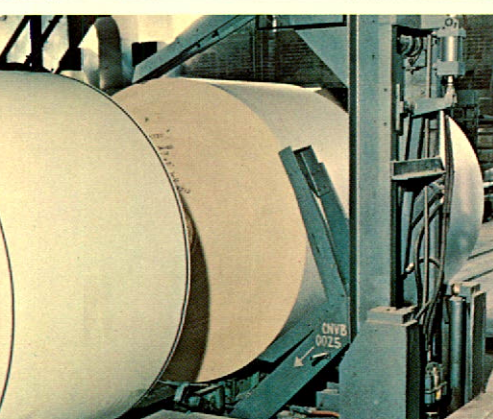
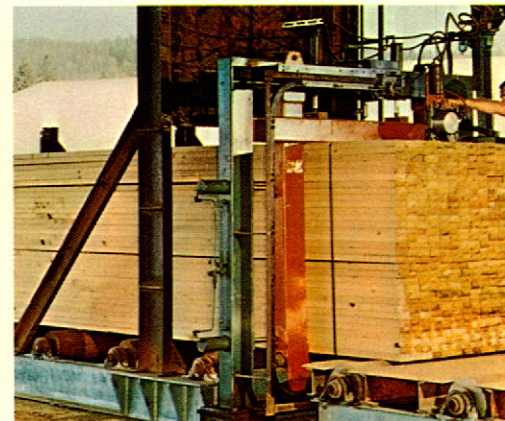
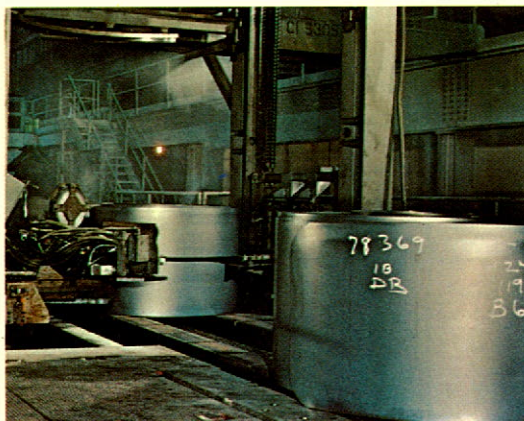
Several facility improvements were made in production operations during the year, including an investment in a new company to manufacture custom strapping machines.

Better service to West Coast customers is on the way with completion in 1968 of our new strapping plant at Pittsburg, California, near San Francisco. The plant will be in full operation in 1969.



Acme Products Division's plant in Pittsburg, California, which was completed late in 1968, is now producing strapping for our West Coast customers.

Acme Steel Company of Canada, Ltd. developed a strapping system for unitizing pulp, making it easier and faster to load and ship.



The appliance industry is an important market for Interlake's automatic strapping machines. This one straps lock flap containers.

Many companies in the metals industry use Interlake machines to handle difficult chores, like this custom unit strapping hot coils.

Up to 20,000 pounds compression from top and side creates a tight lumber package, making it easier to handle, ship and store.

Interlake stitching machines are in use throughout the world. Here, on a banana plantation in Honduras, fruit is packaged for shipment to the U.S.

Interlake developed this disposable dunnage bag to protect cargo while in transit.

Hand strapping tools handle many routine and unusual jobs, such as unitizing these large galvanized culverts for shipment.

Paper mills eliminate damage and cut costs with this automated F7 that puts straps within 1/2" of the paper roll edge every time.

This Interlake F7 unit operates at a key location on a packaging line in France.

The brick industry requires special strapping equipment. Many Interlake "firsts" like this unit have improved packaging and handling.

STORAGE SYSTEMS

Interlake's Acme Products Division is one of the few sources in the nation capable of supplying complete storage systems, which are among the company's fastest growing product lines.

One of industry's most important needs today is for efficient techniques of handling and storing vast quantities of materials used in production processes. Interlake is a major supplier to the large market created by this need.

A listing of the users of Interlake storage systems would comprise a cross-section of American industry. Any firm involved in the manufacture and movement of goods in volume would find the systems useful. Included would be the automotive and auto supply industries, foods, textiles, clothing and recreational equipment, furniture, aircraft, lumber and building material industries.

Interlake storage systems are marketed in several forms and are adaptable to storage needs ranging from small display racks to large systems for storing heavy machinery and bulky items such as boats and furniture. The systems are known for ease of assembly, flexibility and space saving features. Basic components include steel slotted angle and rack with the chief difference being that slotted angle is assembled with nuts and bolts, while rack is assembled with button head studs fitting into tapered keyhole slots.

Rack is stronger and more suitable for heavy storage needs. Rack is also used to make cantilever storage units, developed for open front storage of lengthy products such as pipe, rugs or steel bars. A large selection of accessories is available with Interlake systems, lending substantially to their flexibility. Recently introduced pallet stacking frames have several advantages over other storage and shipping containers since they have superior strength and can be continually reused.

The division's new gravity conveyor systems are as flexible and easy to construct as the storage systems. They may be constructed as inclined shelving to keep products at the front of the bin or as a shipping/receiving aid. The conveyor is attached to a base of slotted angle or rack.

Interlake expanded its capabilities in the storage systems area in 1968 when it introduced its new automatic and manual storage and retrieval systems, named the Acme/Interlake Courier. The new system can be programmed by punched cards or dials to store, transfer and retrieve palletized loads in warehouses and factories and can also send

loads to an automated Interlake strapping station and then on to the dock for shipment. Most of the storage system products are manufactured or assembled at a plant in Pontiac, Illinois. The demand is so strong that work has already begun on a 100,000 sq. ft. addition, the second expansion in three years at the facility built only five years ago.

Two actions were taken during 1968 to expand Interlake storage system capability in world markets. In September, Redirack Industries, Limited, of Toronto, Canada, was acquired. This will enable Interlake to extend its storage and materials handling systems into Canadian markets. In France, our wholly-owned subsidiary, Feralco, completed an addition to its plant near Paris, and Interlake's rack line was added to the French company's existing line of storage products.

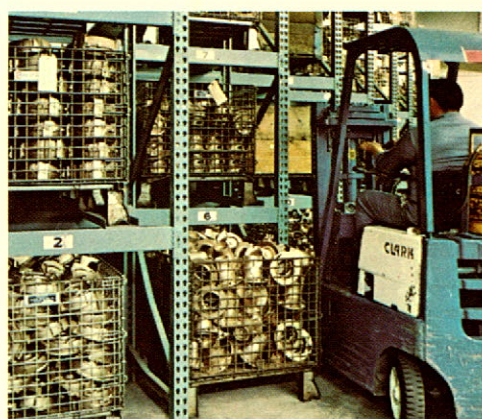
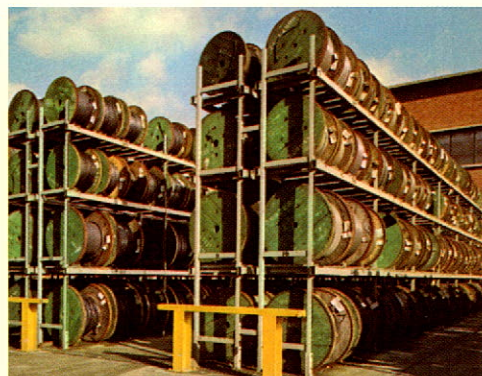


Pallet rack provides convenient, space-saving storage for these boats.

Slotted angle is a highly versatile material, enabling nearly limitless storage applications for many industries, including textiles and clothing.



Interlake's new Courier, an automated pallet retrieval system, was introduced during the year. The first unit has already been sold.



Storage rack is used throughout the world. Here, Interlake pallet rack—introduced in Europe in 1968—provides outdoor storage in France.

Heavy parts storage is a natural application for Interlake storage systems. They can be designed to fit most warehousing needs.

Three company storage products are in this cold storage facility: slotted angle, rack and safety decking.



Redirack of Weston, Ontario, Canada, was acquired during the year. This storage installation was erected using the firm's rack.

This delicate radar instrument is shipped and stored in a rugged, lightweight slotted angle package with corrugated paper cover.

HOME/INSTITUTIONAL FURNISHINGS

Interlake's Howell Division is one of the leading producers of home and institutional furnishings in the United States. The division's home products are sold through many of America's finest furniture stores. Howell pioneered the development of tubular dinette furniture for consumer markets 40 years ago. This was later expanded into institutional and commercial seating products, and today Howell's line of contract furnishings and modern seating is the finest available anywhere.

In 1966, the division acquired the Metalcraft Products Company with plants in Los Angeles and Azusa, California, and this added another line of dinette sets, plus bed frames, roll-aways, tuckaways and bunk beds to Howell's product line. The acquisition also enabled Howell to expand its dinette furniture and seating business to West Coast markets.

The acquisition in June, 1968, of three related Dallas, Texas, furniture companies—Falcon Mfg. Company, McNeff Industries, Inc. and Plasco, Inc.—enabled the division to enter other markets with more than ordinary growth possibilities. In addition to wood, plastic and tubular furniture, and occasional tables for use in homes, these companies are an important factor in the gas lamp and outdoor gas grill field. They are also a major supplier to the rapidly growing mobile home market and the expanding library and educational/institutional markets.

Falcon and Plasco pioneered—and have been leaders over the past 20 years—products which have helped the mobile home industry gain increasing importance. Likewise, McNeff has played a similar role in the library and educational institution market, which is also changing and expanding rapidly. The new look in libraries, the trend from mass to individual instruction and the growing use of individual learning centers in the home, school and library, have created a rising demand for new ideas in library/resource and study equipment. McNeff is recognized as both a pioneer and leading innovator in product development for the industry. Its line offers one of the most modern and complete selections available today.

All Howell Division products are aimed at markets predicted to grow in the years ahead. The near future will witness a great surge in the number of young adults—the age group which generates the greatest demand for consumer durables and educational furniture.

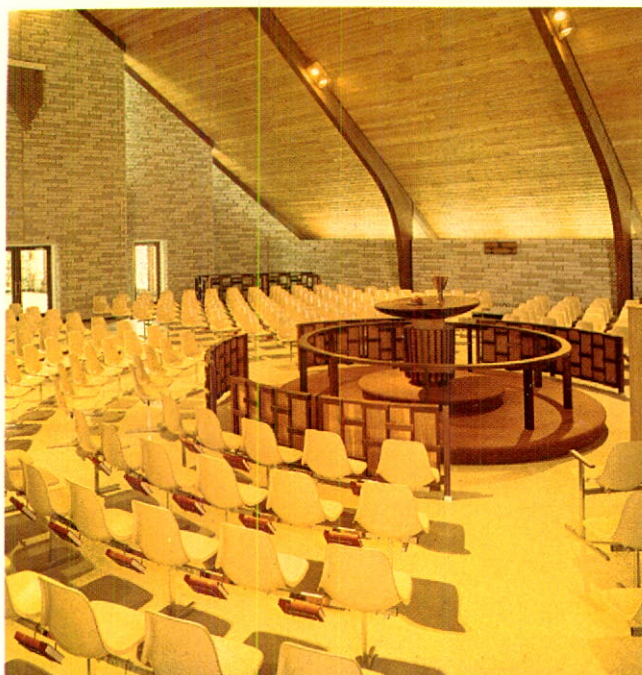
Another important factor in the future is increased lei-

sure time, and this is the market linked with Falcon's attractive line of gas patio grills and lamps. With incomes going up and working hours going down, backyard cookouts are becoming more popular.

Falcon's new Mark V grill, introduced just recently, has 563 square inches of cooking space on two levels, supports for six 20-inch skewers and a handle which permits raising the hood from either end as well as the center. It also has a patented design that prevents flare-ups, and it can be ordered with a portable cart and used with natural or bottled gas.

The division introduced several new furniture products during the January furniture markets in major U. S. cities. The Pavianne group, shown on page 13, represented Howell's first entry into the formal dining market. The chairs and other parts are made from polystyrene plastics.

Several other new products will also be introduced at school, hospital and institutional furniture shows this year.



This modern Howell seating is in a new "Church in the Round" at Lakewood, New Jersey.



Howell entered the formal dining market in 1969 with the Pavianne group. The chairs and other parts are molded polymer.

One example of McNeff Industries' complete library/resource furniture line is shown in this new library, completed late in 1968.

Falcon pioneered special furniture for use in mobile homes, like this set with a Spanish flair.

Howell tables and chairs add a decorative touch to this expansive dining hall at the University of Illinois, Urbana campus.

Falcon produces gas lamps and outdoor grills, too. This new Mark V features a no-flare-up design and 563 square inches of cooking area.

METAL POWDERS

With its acquisition of a two-thirds interest in Hoeganaes Corporation of Riverton, New Jersey, Interlake became majority owner of a recognized leader in the powdered metal field in North America. This company, prior to our acquisition, had been the fully-owned U. S. subsidiary of the Swedish company—Hoganas AB, which had pioneered the commercial development of powdered metal.

Though powdered metallurgy (P/M) is an ancient art, its development was restricted until Hoganas AB developed the processes to mass produce a quality product economically. This, in turn, provided the impetus to manufacturers to develop the equipment and techniques required for its commercial application. Initial development was confined to Europe but quickly spread to the United States. The U. S. plant at Riverton, N. J., was completed in 1953 and has been expanded three times, increasing its capacity sevenfold.

Powdered metal serves a number of expanding markets and is used in the manufacture of coated welding rods, cutting and metallizing applications and in chemicals. Currently, its largest and most rapidly growing market lies in the production of structural parts such as gears, cams and other complicated parts for the automotive, household appliance, business machines and many other industries.

The P/M process is adaptable to the manufacture of a broad range of parts, particularly those of complex shapes. The powder is automatically fed into a die, compressed and then sintered or heat-treated. By varying the analysis and the heat-treating cycle, a complete range of physical properties, including self-lubricating features, can be obtained in the finished parts. In addition, substantial savings can be achieved, compared with conventional methods, which usually involve costly machining operations and substantial yield losses.

Initially, P/M part sizes were restricted due to limitations imposed by available press capacities. Larger presses have been developed, and these have enabled the average weight of powdered metal parts to increase from one-half pound to a current average of about one and one-half pounds.

Several producers of powdered metal parts, for instance, are presently installing 1,000-ton presses—the largest thus far developed—which will be capable of producing parts weighing ten pounds. To illustrate one possibility, it is pre-

dicted that the number of structural powdered metal parts in the average automobile will double by 1971.

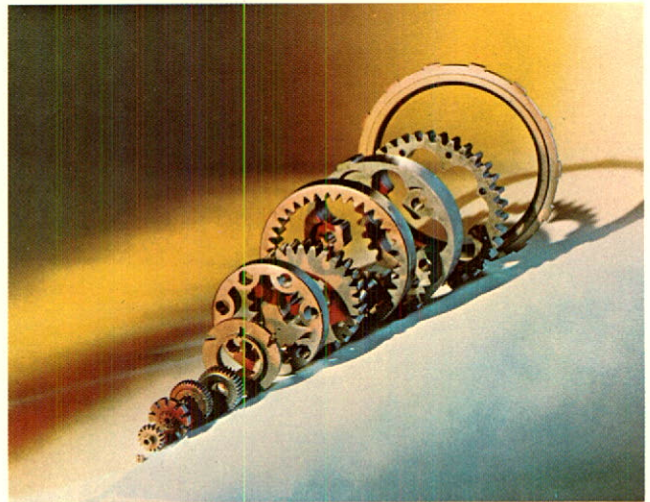
The development and recent introduction of atomized powders will provide additional impetus to the growth of powdered metal. These powders permit production of structural parts with substantially improved densities.

This development is also opening up entirely new markets such as the production of closed die forgings. Connecting rods for automobiles have already been produced in this manner.

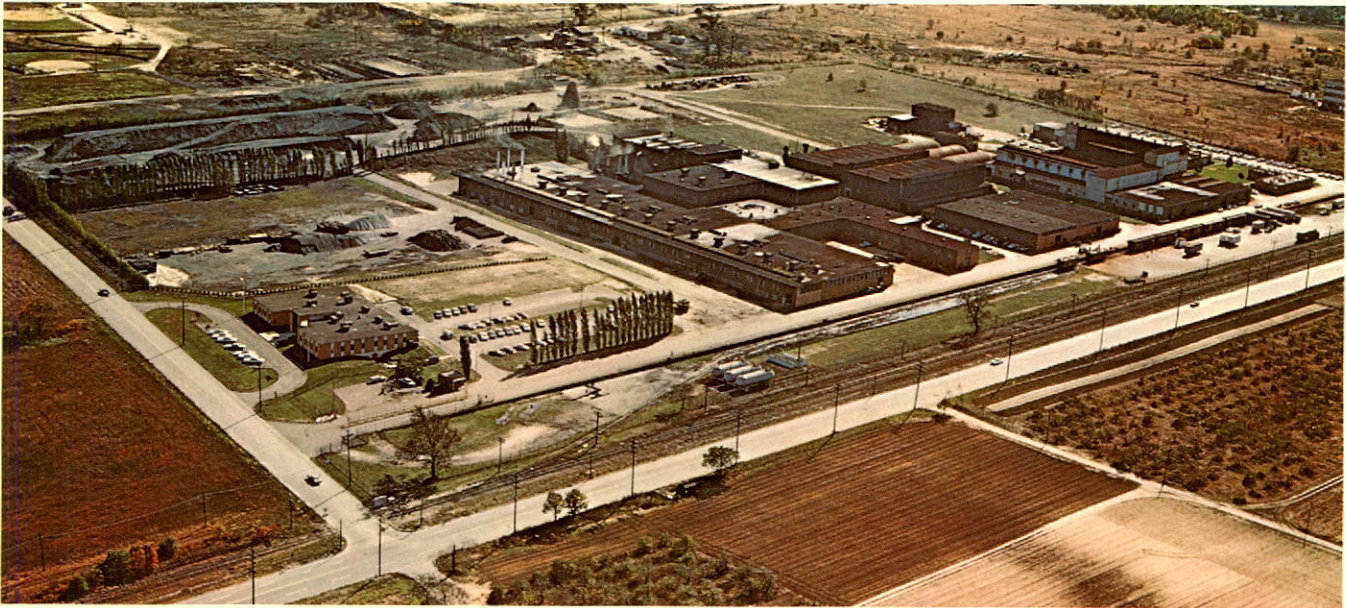
Demand is also increasing for stainless, alloy and super-alloy powders, which have been produced by the atomizing process at Riverton for years. In addition to its own extensive research activities, the company has had government-sponsored research programs to develop super-alloys for jet engines, rockets and similar applications.

A major expansion program involving the expenditure of \$8,000,000 is currently under way at Riverton for a facility to manufacture metal powders by the atomizing process. When completed, this new plant will have the capacity to produce over 50,000 tons annually.

We are confident the important acquisition of Hoeganaes will contribute substantially to Interlake's future growth.



Parts in a wide variety of sizes and shapes are made from powdered metal.



This is Hoeganaes Corporation's facility at Riverton, New Jersey. A new plant for producing atomized powder is now being built on the plot at upper right.

This is an atomizing unit at the Riverton plant. Molten metal drops through high pressure water jet sprays, emerging as fine metal powder.



Imagination is perhaps the sole limitation to the possibilities for powder metallurgy. Research is constantly finding new P/M applications.

FERROALLOYS

Globe Metallurgical Division's modern plant at Beverly, Ohio, produces silicon metal and ferroalloys, including ferrosilicon, high and low carbon chrome and manganese. These are all basic materials used in hundreds of products for home and industry.

The division has earned an enviable niche in the marketplace because of its success with product quality and on-time delivery.

The largest volume product is silicon metal. About ten times more silicon metal was used in 1968 than ten years ago. The largest use of this product is in the production of aluminum silicon alloys for the die casting industry. Recent developments in the product have made possible many high-strength, light-weight alloy castings used extensively in automotive, aircraft and marine applications, as well as in numerous industrial and consumer appliances.

The chemical industry represents the second largest consumer of silicon metal where it is used in the production of compounds of silicon commonly referred to as silicones. These possess a range of extraordinary properties that have created a growing list of applications, including waxes, varnishes and rubber that can be used under conditions where conventional products fail. Also well known is the

superior quality of silicone compounds for waterproofing, adhesives and electrical insulation. Silicone liquids are also being used as lubricants, dielectric, hydraulic and dampening fluids that can be maintained over a temperature range of 250°C. to -70°C. without significant change in physical or chemical characteristics.

Ferroalloys are essential ingredients to the steelmaker, the foundry industry, the aluminum industry and the stainless steel and alloy steel producer. In each case, ferroalloys impart qualities of toughness and corrosion resistance essential to product usefulness and long life.

Ferrosilicon is produced in large volume at Beverly. It is used as a deoxidizer in the production of steel and to increase silicon content of steel and iron castings. A high silicon steel known as electrical sheet with controlled magnetic and electrical properties is necessary for high efficiency electrical motors and transformers.

These examples of Beverly ferroalloys do not include the full range of products and mixes, nor the alloys which are developed for custom metal production. The Beverly plant has doubled its size within the last five years and will certainly share in the development and growth predicted for the many markets serviced by its products.



Ferroalloys and silicon metal, made by our Globe Metallurgical Division, are essential in producing many well-known products.



Interlake ferroalloys are used in many consumer items, like these attractive aluminum products.



Silicone compounds made from Interlake silicon metal impart superior qualities to adhesives, polishes, water-proofing agents and many other household and industrial products.

FINANCIAL REVIEW

In Brief

The resumption of the record setting sales pace, experienced in six of the past seven years, highlighted Interlake's operating results for 1968. The results for the year are capsulized in the following:

- Sales of \$285,571,000 in 1968 were at a record high level. They exceeded 1967 sales by \$29,160,000, or 11.4%, and were 6.2% above the previous record set in 1966. Acquisition activity in 1968 played a part in setting this record by adding \$10,381,000.
- Net Income was \$12,556,000, or \$2.80 per common share. This is a decrease of \$.35 per share, or 11.1%, from \$3.15 in 1967. The 10% surtax in 1968 accounted for \$.20 per share of the decrease. Accounting policy for recording depreciation and investment credit was the same for both years.
- Cash Flow from net income, depreciation, and future income taxes was \$24,199,000, \$1,156,000 less than in 1967. Additional borrowings during the year of \$27,000,000 added to cash available.
- Capital Expenditures were \$13,752,000 in 1968. About 35% of this amount was for expansion related projects and the balance for cost reduction and replacement programs.
- Acquisition activity was at a high point. Five new companies were acquired. All the acquisitions were made for cash and were the primary requirement for the additional borrowings of \$27,000,000.
- Debt/Equity ratio at the end of 1968 was 21/79. This represents a considerably more leveraged position than the 13/87 ratio at the end of 1967.

Sales and Other Revenues

Net Sales of \$285,571,000 in 1968 were at a record level for Interlake. They were \$16,767,000 or 6.2% above the previous record which was set in 1966. Of major significance was the overall pattern of business activity. A major sales surge was realized through the first seven months of 1968 as customers accumulated inventories against the threat of a possible

August 1 strike in the steel industry. Subsequently, sales declined for iron and steel mill products. Nevertheless, the pattern of total sales throughout the year was relatively stable for two principal reasons. First, only about half of Interlake's sales are related to the economics of the steel industry as illustrated in the product mix chart on page 5. Second, newly acquired companies added \$10,381,000 to second half sales.

The fourth quarter of 1968 reflected the consolidated sales of each of the five newly acquired companies. During this period, when steel shipments were beginning to return to more normal levels, the sales from these businesses were 9% of total sales.

Each of the major product lines achieved sales increases over 1967 levels; however, iron sales declined 4% reflecting a continuing deterioration in the volume of pig iron shipments.

The sales growth experienced in the storage systems and furniture lines has been compounded by acquisition activity in 1968; however, excluding the sales of companies acquired in 1968, internal growth was 15% and 12%, respectively.

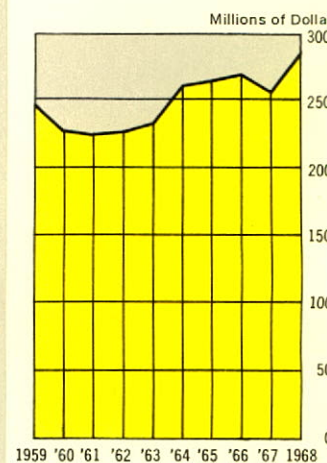
Selling prices were raised moderately on selected Interlake products at various times throughout the year and had a minimal effect on 1968 sales. In November, the steel industry made sharp reductions in the selling prices of hot rolled sheets. Where applicable, Interlake also passed this reduction on to its hot rolled strip customers. Early in the year 1969, a substantial percentage of the price reduction was reversed.

Other Revenues—three major sources make up other revenues: dividends, interest income, and rents and royalties from ownership rights in coal and oil producing properties. These totaled \$2,304,000 in 1968 and \$2,605,000 in 1967. The decline is directly related to lower dividends reflecting the phasing out of operations of Western Mining Company and reduced level of production at Olga Coal Company. The total of other revenues contributed \$.38 per share to net income in 1968 compared with \$.48 per share in 1967.

Net Income

Net income in 1968 was \$12,556,000, the equivalent

NET SALES



FINANCIAL REVIEW *continued*

of \$2.80 per common share. In 1967, net income was \$14,133,000, or \$3.15 per common share.

The combination of an increased effective tax rate, the decline in other revenues, and the increase in interest expense overshadowed the modest improvement in operating profit and resulted in the decline in net income of 11.1% from 1967.

The effective tax rate was 44.4% in 1968 compared with 39.5% in 1967. The change is primarily accounted for by two factors: the 10% surtax and lower investment credit. The 10% surtax had a major impact on 1968 earnings; there was no surtax in 1967. Investment credit was \$1,450,000 in 1967 and, because fewer projects qualified during the year, it was only \$787,000 in 1968. Interlake follows the "flow through" method of accounting for the investment credit which means that the total amount qualified during any year is taken as a reduction of U.S. income taxes during that year. In summary, the higher effective tax rate reduced 1968 net income per share by \$.35 as shown below:

10% surtax	\$.20
Lower investment credit15
	<u>\$.35</u>

Interest expense was \$2,465,000 in 1968 compared to \$1,559,000 in 1967. This is directly related to Interlake's acquisition program and the accompanying increase in debt.

The erratic sales pattern during the year of iron and steel mill products adversely affected the operating results. In the latter part of the year, increased expenses were also experienced in connection with a major blast furnace reline; in addition to the relining cost, the continuation of fixed charges and the outside purchase of hot metal added to the total cost. However, this project strengthens the company's production position going into 1969.

Higher costs of labor, resulting primarily from the August 1969 contract, and materials were only partially offset by selective selling price increases. Continuing cost control and profit improvement programs, record production levels in packaging systems, storage systems and furniture lines, and earnings from the newly acquired companies tended to offset the negative factors.

Sources of Funds and Their Use

In 1968, funds generated from operations were supplemented by bank borrowings needed to support major acquisition activity.

Cash Flow from net income, depreciation and future income taxes was \$24,199,000 in 1968 and was \$25,355,000 in 1967. The individual elements are shown on the Statement of Source and Application of Funds on page 21. In addition to these funds which were derived from operations, bank borrowings of \$27,000,000 in 1968 added importantly to the overall availability of funds. The major uses of these funds follow.

Dividends on common stock were \$8,078,000 in 1968. This is equivalent to \$1.80 per common share and represents a payout ratio of 64%. This annual dividend rate has been in effect since May of 1966.

Capital Expenditures were \$13,752,000 in 1968, somewhat under the \$15,739,000 expended in 1967. Expenditures during 1968 which have important long-range implications include a new strap manufacturing facility in Pittsburg, California; several projects to improve hot rolled strip quality and to upgrade strapping facilities at Riverdale; and expenditures on the new corporate research center which was announced last year and which will be occupied in the first quarter of 1969.

The percentage breakdown of total expenditures made during 1968 is as follows:

	Cost Reduction and		
	Expansion	Replacement	Total
Iron and Steel	3%	40%	43%
All Other	32	25	57
	<u>35%</u>	<u>65%</u>	<u>100%</u>

Included in the total are the initial funds for engineering and construction of the new Hoeganaes facility for the production of atomized metal powders. Major expenditures will be made for this project in 1969.

Acquisitions and Investments required \$21,879,000 in 1968 compared with only \$1,344,000 in 1967. A small part of the 1968 expenditure was for Interlake's investments in iron ore interests.

The \$21,111,000 expenditure for new acquisitions was virtually all directed at businesses outside of the iron/steel

industry. These expenditures take Interlake into broader product and market areas within businesses that have historically provided the company with attractive growth and profitability. The acquisition of Hoeganaes takes Interlake into a new field, one of the fastest growing in the United States.

Capital Structure and Financial Condition

Acquisition activity had an important impact on the company's financial position at December 31, 1968.

Intangible assets at the end of 1968 were \$12,529,000. Most of this amount, \$11,725,000, represents goodwill resulting from the 1968 acquisition activity. These acquisitions are considered to have significant continuing value and, for this reason, there are no plans to amortize the goodwill acquired. The remaining amount of intangibles will continue to be amortized.

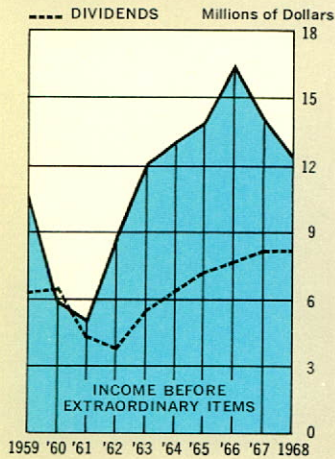
Debt and capital structure changed markedly during

1968. Long-term debt rose to \$53,047,000 from \$28,268,000 at the end of 1967. Additional borrowings of \$27,000,000 under a revolving credit agreement are the major factor in the change. Details of the debt position are shown on page 24 in Note 4 to the financial statements. This change in debt substantially increases the leverage on common stock. At December 31, 1968, it provides a debt to equity ratio of 21/79. A year earlier the ratio was 13/87. The capital structure of the company is shown graphically on this page and illustrates the change at the end of 1968.

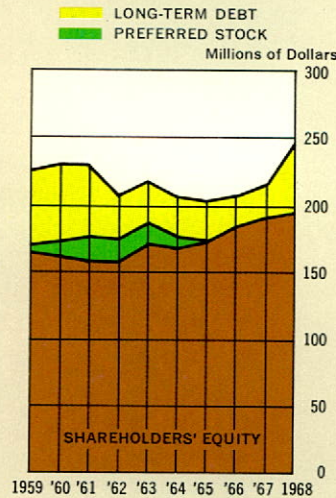
Interlake's shareholders authorized 1,000,000 shares of serial preferred stock at the 1968 Annual Meeting. At the end of the year, none of these shares had been issued and they remain as a source of flexibility in future financing.

Working capital of \$74,365,000 at December 31, 1968, was moderately above the \$69,170,000 at the end of 1967. The current ratio was 2.7 to 1 at the end of 1968 and reflects a continuing strong financial position.

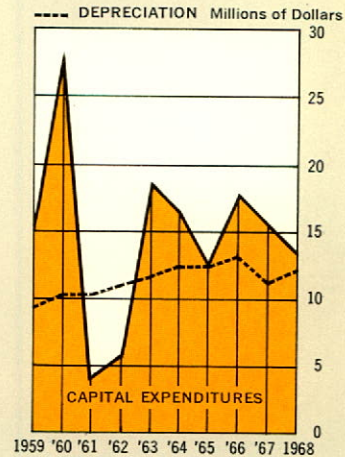
INCOME BEFORE EXTRAORDINARY ITEMS AND COMMON DIVIDENDS



CAPITALIZATION



CAPITAL EXPENDITURES AND DEPRECIATION



INTERLAKE STEEL CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Years Ended December 31, 1968 and 1967

(See notes to financial statements)

INCOME

	1968	1967
SALES AND REVENUES:		
Net sales	\$285,570,853	\$256,410,632
Other revenues	<u>2,303,947</u>	<u>2,604,802</u>
	<u>287,874,800</u>	<u>259,015,434</u>
COSTS AND EXPENSES:		
Cost of products sold	214,780,711	192,351,129
Depreciation, depletion and amortization (Note 2)	12,273,478	11,268,542
Selling and administrative expenses	27,855,458	24,058,030
State, local and miscellaneous taxes	7,930,940	6,424,868
Interest expense	<u>2,464,912</u>	<u>1,558,764</u>
	<u>265,305,499</u>	<u>235,661,333</u>
INCOME BEFORE TAXES ON INCOME	<u>22,569,301</u>	<u>23,354,101</u>
PROVISION FOR U. S. AND FOREIGN INCOME TAXES, less investment credit of \$787,000 in 1968 and \$1,450,000 in 1967:		
Current	9,364,000	9,387,000
Deferred—net	<u>649,000</u>	<u>(166,000)</u>
	<u>10,013,000</u>	<u>9,221,000</u>
NET INCOME for the year	<u>\$ 12,556,301</u>	<u>\$ 14,133,101</u>
NET INCOME per common share	\$2.80	\$3.15

RETAINED EARNINGS

RETAINED EARNINGS at beginning of the year	\$ 88,689,929	\$ 82,629,317
NET INCOME for the year	<u>12,556,301</u>	<u>14,133,101</u>
	<u>101,246,230</u>	<u>96,762,418</u>
DEDUCT—Cash dividends paid, \$1.80 per share	8,077,874	8,072,489
RETAINED EARNINGS at end of the year	<u>\$ 93,168,356</u>	<u>\$ 88,689,929</u>

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FOR RELEASE: Thursday, August 26, 1976

INTERLAKE DECLARES 55¢ COMMON DIVIDEND

CHICAGO, ILL., August 26, 1976 -- Interlake, Inc. directors today declared a cash dividend of 55 cents per share on the outstanding shares of the corporation's common stock payable September 30, 1976, to shareholders of record at the close of business on September 15, 1976.

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INTERLAKE STEEL CORPORATION AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Years Ended December 31, 1968 and 1967

(See notes to financial statements)

	1968	1967
SOURCE OF FUNDS:		
Net income	\$ 12,556,301	\$ 14,133,101
Depreciation, depletion and amortization	12,273,478	11,268,542
Future income taxes	(631,232)	(47,000)
Total from operations	<u>24,198,547</u>	<u>25,354,643</u>
Notes payable to banks	27,000,000	7,000,000
Minority interest in subsidiary	1,133,429	—
	<u>52,331,976</u>	<u>32,354,643</u>
 APPLICATION OF FUNDS:		
Capital expenditures less net book value of retirements and sales of \$408,847 in 1968 and \$277,956 in 1967	13,343,160	15,460,616
Cash dividends	8,077,874	8,072,489
Reduction of long-term debt	3,762,334	2,163,000
Investment in subsidiary companies (net of working capital acquired)	21,111,086	332,887
Investments in and advances to iron ore interests and others (net of repayments)	767,416	1,010,768
All other—net	75,107	(233,752)
	<u>47,136,977</u>	<u>26,806,008</u>
 WORKING CAPITAL:		
Increase during year	5,194,999	5,548,635
Balance at beginning of year	69,169,963	63,621,328
Balance at end of year	<u>\$ 74,364,962</u>	<u>\$ 69,169,963</u>

INTERLAKE STEEL CORPORATION AND CONSOLIDATED SUBSIDIARIES

BALANCE SHEET—December 31, 1968 and 1967

(See notes to financial statements)

ASSETS

	1968	1967
CURRENT ASSETS:		
Cash and certificates of deposit	\$ 6,698,823	\$ 6,220,806
Marketable securities, at cost	998,160	—
Receivables, less allowance for doubtful accounts of \$671,000 in 1968 and \$451,000 in 1967	30,793,284	28,255,580
Inventories at lower of cost (principally LIFO) or market:		
Raw materials	24,910,777	21,303,122
Semifinished and finished products	41,234,218	40,753,706
Supplies	8,212,889	7,029,700
	<u>74,357,884</u>	<u>69,086,528</u>
Other current assets	4,446,149	3,500,776
Total current assets	<u>117,294,300</u>	<u>107,063,690</u>
INVESTMENTS AND OTHER ASSETS:		
Investments in affiliated and associated companies (Note 1)	2,919,414	2,483,014
Iron ore interests (Notes 1 and 9)	18,933,065	18,602,049
Other investments and deferred charges	6,209,193	6,018,256
	<u>28,061,672</u>	<u>27,103,319</u>
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land and mineral properties, less depletion	10,643,758	10,445,225
Plant and equipment	324,052,244	295,703,101
	<u>334,696,002</u>	<u>306,148,326</u>
Less—Depreciation and amortization (Note 2)	180,731,045	164,108,966
	<u>153,964,957</u>	<u>142,039,360</u>
INTANGIBLE ASSETS, principally goodwill		
(Notes 3 and 9)	12,529,320	908,010
	<u>\$311,850,249</u>	<u>\$277,114,379</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

1968

1967

CURRENT LIABILITIES:

Notes payable	\$ 1,225,671	\$ 1,500,000
Accounts payable	22,417,581	18,724,023
Salaries and wages	9,773,562	8,254,557
Taxes other than income taxes	3,802,250	3,862,811
U.S. and foreign income taxes	4,326,941	4,477,336
Current maturities of long-term debt (Note 4)	1,383,333	1,075,000
Total current liabilities	<u>42,929,338</u>	<u>37,893,727</u>

LONG-TERM DEBT (Note 4)	<u>53,047,334</u>	<u>28,268,000</u>
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FUTURE INCOME TAXES	<u>18,618,403</u>	<u>19,407,000</u>
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MINORITY INTEREST IN SUBSIDIARY	<u>1,133,429</u>	<u>—</u>
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SHAREHOLDERS' EQUITY:

Serial preferred stock, par value \$1 a share; authorized 1,000,000 shares; none issued (Note 5)	—	—
Common stock, par value \$1 a share; authorized 10,000,000 shares; issued 4,660,005 shares	107,749,253	107,749,253
Retained earnings (Note 6)	93,168,356	88,689,929
	<u>200,917,609</u>	<u>196,439,182</u>
Less—Cost of common stock held in treasury (170,908 shares in 1968 and 173,440 in 1967) (Note 7)	4,795,864	4,893,530
	<u>196,121,745</u>	<u>191,545,652</u>
	<u>\$311,850,249</u>	<u>\$277,114,379</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 1968

NOTE 1—Principles of Consolidation

The consolidated financial statements include the Company, all wholly-owned subsidiaries, and the Hoegaanes Corporation which is two-thirds owned. Businesses acquired in 1968 are included in the statements beginning with the month in which they were purchased. Foreign subsidiaries, located principally in Canada, represent approximately 4% of consolidated net assets.

The Company's equity in the underlying net assets of unconsolidated companies and iron ore interests exceeded the book value, recorded at cost or lower, by \$2,225,786 at December 31, 1968, and \$2,253,491 at December 31, 1967. Dividends received from these investments exceeded ownership equity in net income by \$114,041 and \$187,122 in 1968 and 1967, respectively.

NOTE 2—Depreciation and Amortization

It is the policy of the Company to depreciate plant and equipment principally on a straight-line method over the estimated useful lives of the assets. Provision for depletion of mineral properties is based upon tonnage rates which are expected to amortize the cost of these properties over the estimated amount of mineral deposits to be removed.

Depreciation claimed for income tax purposes is computed by use of accelerated methods. Income taxes applicable to the additional depreciation claimed for tax purposes have been credited to future income taxes.

NOTE 3—Goodwill

Intangible assets include goodwill of \$12,455,058 in 1968 and \$823,770 in 1967. The goodwill represents the difference between purchase price and the Company's equity in the underlying net assets of companies acquired. Goodwill of \$11,724,888 is not being amortized; the remaining amount is being amortized over a ten-year period ending in 1977.

NOTE 4—Long-Term Debt

Long-term debt of the Company, at December 31, 1968, consists of the following:

	1968	1967
Notes payable to banks	\$ 34,000,000	\$ 7,000,000
4% debentures, due annually \$1,250,000 1969 to 1972, \$1,500,000 1973 to 1976, and \$2,500,000 in 1977	11,114,000	13,493,000
5% debentures, due annually \$375,000 1969 to 1977	3,375,000	3,750,000
5% insurance company loan, due annually \$700,000 1969 to 1973 and \$900,000 in 1974	4,400,000	5,100,000
7% note payable of subsidiary, due annually \$308,333 1969 to 1973	1,541,667	—
	<u>54,430,667</u>	<u>29,343,000</u>
Less—current maturities	1,383,333	1,075,000
Long-term debt	<u>\$ 53,047,334</u>	<u>\$ 28,268,000</u>

The Company, at December 31, 1968 had borrowed \$34,000,000 under a credit agreement with a group of banks which permits borrowings up to \$40,000,000 at the prime interest rate. At August 31, 1970 any

or all of the then outstanding notes may be converted into a five-year term loan repayable in equal annual installments. The agreement provides that consolidated working capital, exclusive of the amounts borrowed thereunder, be at least \$55,000,000 at each year-end.

At December 31, 1968, 4% debentures with a face value of \$2,386,000 were held in the Treasury by the Company. Of these, \$1,250,000 may be used to meet the 1969 sinking fund requirements and have been applied as a reduction of current maturities of long-term debt. The balance may be used to meet future requirements and has been applied as a reduction of long-term debt.

NOTE 5—Serial Preferred Stock

In 1968 the shareholders authorized 1,000,000 shares of serial preferred stock with a par value of \$1.00 per share. The designation, relative rights, preferences, and limitations of these shares will be determined by the Board of Directors for each series which may be issued. No preferred shares were issued in 1968.

NOTE 6—Dividend Restriction

Under the most restrictive terms of the provision of the indenture relating to the debentures and the terms of the loan agreement with the insurance company, \$54,364,962 of retained earnings at December 31, 1968 was unrestricted for the payment of cash dividends.

NOTE 7—Stock Options and Treasury Stock

A Qualified Stock Option Plan was approved by the shareholders in 1965. At December 31, 1968, there were outstanding options for 59,050 shares at \$31.38 or \$41.94 per share, of which 51,045 were exercisable. No options were exercised during the year.

At December 31, 1968, 150,000 treasury shares of common stock were reserved for stock options, 7,756 for distribution under a deferred compensation plan, and 13,152 were unreserved. During 1968, 2,532 treasury shares were distributed under the deferred compensation plan.

NOTE 8—Pension Plans

Several pension plans are in effect covering substantially all employees. Most of these plans follow the basic pension pattern of the steel industry. Pension cost was \$4,883,263 in 1968 and \$4,733,702 in 1967, which includes current costs plus interest on and 40 year amortization of unfunded prior service cost. The Company's policy is to fund pension cost accrued.

The actuarially computed value of vested benefits per the latest actuarial report exceeded the market value of the pension fund assets, including the 1968 contribution, by approximately \$1,229,000.

NOTE 9—Commitments

The Company has interests in various ore mining and pelletizing projects and is required to take its ownership proportion of the production for which it is committed to pay its proportionate share of the operating costs of these projects either directly or as a part of the product price. The minimum amount which the Company is committed to pay is approximately \$2,100,000 annually over about 20 years, regardless of the quantity of product received.

The Company is committed to pay additional purchase price up to a maximum amount of \$805,625 for certain companies acquired in 1968. The additional purchase price is contingent upon the amount of future income of these companies. Such payments, if made, will be recorded as goodwill (Note 3).

To the Board of Directors and Shareholders
of Interlake Steel Corporation

In our opinion, the accompanying consolidated balance sheet and related statements of consolidated income, retained earnings and source and application of funds present fairly the financial position of Interlake Steel Corporation and its consolidated subsidiaries at December 31, 1968, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.

January 31, 1969
Chicago

Price Waterhouse & Co.

INTERLAKE STEEL CORPORATION AND CONSOLIDATED SUBSIDIARIES

TEN YEAR FINANCIAL SUMMARY OF OPERATIONS

(in thousands—except per share statistics)

FOR THE YEAR

	Net Sales	Income Before Extraordinary Items	Extraordinary Items (less applicable income tax)	Net Income			Income Per Common Share		
				Amount	% of Net Sales	% of Shareholders' Equity	Before Extraordinary Items	Extraordinary Items	Net Income
1968	\$285,571	\$12,556	\$ —	\$12,556	4.4%	6.4%	\$ 2.80	\$ —	\$ 2.80
1967	256,411	14,133	—	14,133	5.5	7.4	3.15	—	3.15
1966	268,804	16,481	—	16,481	6.1	8.9	3.68	—	3.68
1965	262,363	13,861	—	13,861	5.3	7.9	3.02	—	3.02
1964	259,580	13,147	(3,714)	9,433	3.6	5.3	2.78	(.83)	1.95
1963	234,413	12,079	—	12,079	5.2	6.4	2.52	—	2.52
1962	227,875	8,762	(2,978)	5,784	2.5	3.3	1.82	(.70)	1.12
1961	224,594	5,442	(4,129)	1,313	.6	.7	1.08	(.98)	.10
1960	229,276	5,966	(1,328)	4,638	2.0	2.7	1.28	(.31)	.97
1959	247,694	10,668	—	10,668	4.3	6.2	2.44	—	2.44

FOR THE YEAR

	Cash Flow	Dividends Paid			Capital Expenditures	Depreciation	Interest Expense	Taxes on Income Before Extraordinary Items	
		Common	Preferred	% of Income Before Extraordinary Items				Amount	% of Pre-Tax Income
1968	\$ 24,199	\$ 8,078	\$ —	64.3%	\$13,752	\$12,273	\$2,465	\$10,013	44.4%
1967	25,355	8,072	—	57.1	15,739	11,269	1,559	9,221	39.5
1966	29,448	7,842	—	47.6	17,905	13,232	1,296	12,126	42.4
1965	28,778	7,160	436	54.8	12,988	12,871	1,547	8,176	37.1
1964	24,846	6,295	730	53.4	16,955	12,730	1,898	5,772	30.5
1963	24,712	5,613	1,031	55.0	18,898	11,886	1,770	9,592	44.3
1962	22,126	3,885	1,065	56.5	5,866	11,050	2,204	9,478	52.0
1961	17,902	4,711	819	101.6	4,073	10,137	2,935	6,089	52.8
1960	18,439	6,373	486	115.0	28,227	10,121	3,239	6,796	53.2
1959	21,991	6,326	351	62.6	15,180	9,383	2,705	10,989	50.7

AT YEAR END

	Working Capital			Common Shareholders' Equity					
	Amount	Current Ratio	Property (Net)	Long-Term Debt	Future Income Taxes	Preferred Stock	Amount	Outstanding Shares	Per Share
1968	\$ 74,365	2.7 to 1	\$153,965	\$53,047	\$18,618	\$ —	\$196,122	4,489	\$43.69
1967	69,170	2.8	142,039	28,268	19,407	—	191,546	4,487	42.69
1966	63,621	2.6	137,590	23,431	19,454	—	185,358	4,483	41.35
1965	64,756	2.9	131,603	25,925	19,719	—	176,552	4,477	39.43
1964	58,009	2.5	146,880	29,375	17,303	8,650	170,353	4,466	38.15
1963	71,506	2.8	149,557	31,450	20,649	15,430	173,125	4,613	37.53
1962	79,057	3.5	131,916	33,838	18,871	16,888	158,743	4,235	37.47
1961	86,792	3.6	142,456	54,348	15,492	17,250	159,150	4,195	37.59
1960	71,055	2.6	149,194	56,184	12,633	11,500	163,298	4,191	38.60
1959	79,208	2.9	132,180	52,688	9,795	7,250	165,114	4,189	39.06

NOTE TO TEN YEAR SUMMARY

Interlake Steel Corporation is the surviving corporation of the merger of Acme Steel Company into Interlake Iron Corporation on December 22, 1964. This Ten Year Financial Summary of Operations reflects the combined operations of these two companies on a "pooling of interests" basis for the year 1964 and prior years.

Income per common share is based on the average number of common shares outstanding during each year, after recognition of the dividend requirements on the preferred stock. For the years 1959-1964, the Acme shares (adjusted to reflect a 2% stock dividend in 1962) were converted at the rate of .7 of an Interlake share for each Acme share, this being the exchange basis of the merger.

Cash flow is defined as income before extraordinary items, depreciation and future income taxes, less preferred stock dividends.

Capital expenditures exclude assets acquired through the acquisition of capital stock of consolidated subsidiaries.

INTERNATIONAL

- Sales consolidated under Packaging Systems
- Volume increased during year
- Sales trend has followed domestic business
- Major growth predicted

- Packaging systems
- Storage systems
- Shipping systems
- Stitching systems

- Same markets as in United States
- Exploitation of technical know-how to foreign markets
- Foreign market penetration growing
- Marketed by the sales forces of our own subsidiaries and affiliate companies, also by licensees and distributors

- Acquired Redirack of Toronto, major storage system manufacturer in Canada
- Completed major licensing agreements for distribution of strapping systems in Germany, Sweden, Japan and Okinawa
- Strengthened other market coverage
- Facility expansion completed at Feraco plant in France

- Toronto, Ontario, Canada
- Weston, Ontario, Canada
- Welwyn and Kilnhurst, England (50% owned)
- Mexico City, Mexico
- Sezanne, France

FURNITURE/HOME PRODUCTS

- \$27 million; 10% of total company sales; up 25% from 1967
- Sales trends up
- Good reception at January furniture markets
- Strong sales growth forecast

- Metal, wood and plastic dinettes, home and mobile home furniture
- Audio-visual, study and other educational furnishings
- Bed frames, bunk & rollaway beds
- Gas grills and gas lamps

- Howell is style, prestige leader
- Homes, classrooms, auditoriums, study halls, cafeterias, reception and hospital rooms, mobile homes
- Buyers highly style-conscious
- Marketed nationally through dealers and distributors

- Operated at high capacity
- Acquired three Dallas, Texas, furniture companies
- Entered formal dining market with new plastic furniture
- Expansion of educational furniture market
- New warehouses approved for Azusa, California, and Dallas, Texas

- Azusa, California
- Lynwood, California
- St. Charles, Illinois
- Dallas, Texas (Three separate facilities)
- Stanley, Wisconsin

METAL POWDERS

- \$5.6 million; 2% of total; consolidated from August only
- Annual sales growth of about 20% in past few years
- Excellent potential

- Iron, steel, stainless and alloy powders
- Atomized powders

- Recognized leader in North America
- Technical and metallurgical service to customers is key
- Sales to parts fabricators; automobile industry is major customer
- Provides lower costs for parts fabricators
- Marketed through own sales force

- Major new facility authorized for increasing the production of atomized powders

- Riverton, New Jersey

FERROALLOYS

- \$18 million; 6% of total; sales up 6% from 1967
- Pricing mixed depending on alloy
- Strong growth forecast

- Silicon metal
- Ferrosilicon
- High, low-carbon chrome and silicon
- Manganese and silvery pig iron

- Interlake has small market share
- Steel, aluminum and chemical industries
- Delivery and quality stressed
- Strong import competition on certain alloys

- Facilities operating near capacity
- Normal replacement and improvement programs

- Beverly, Ohio

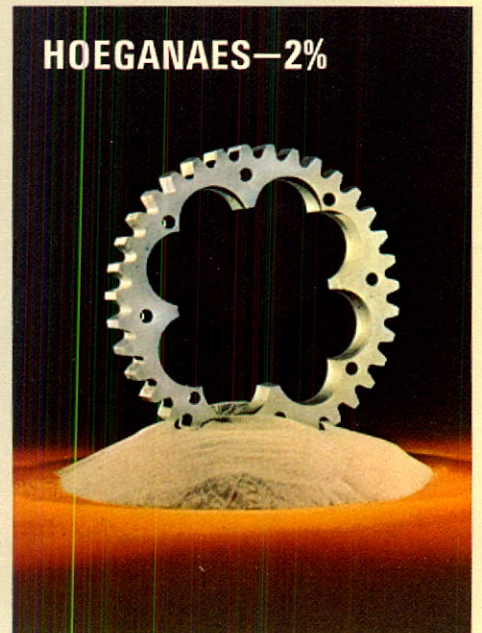
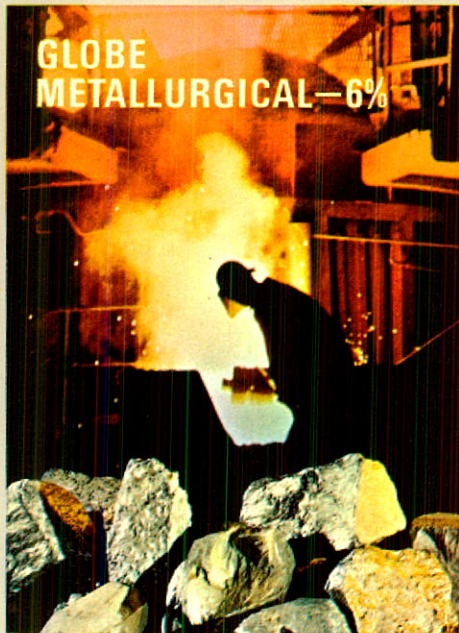
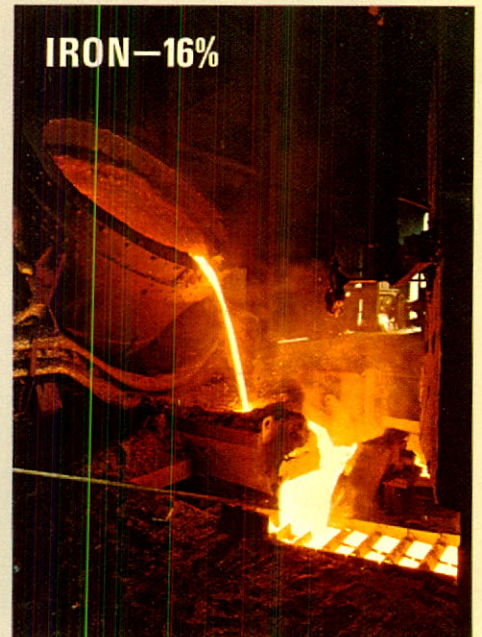
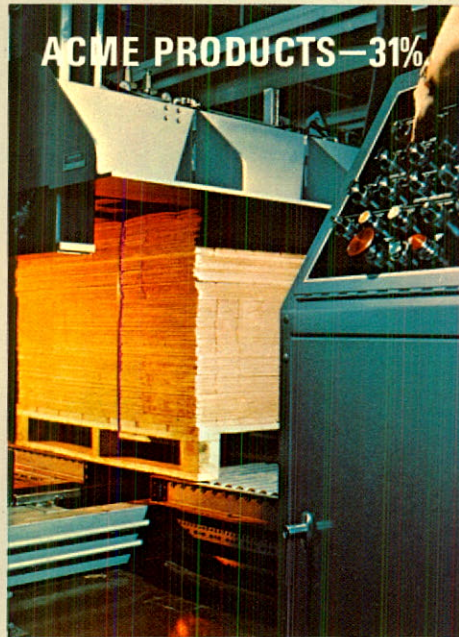
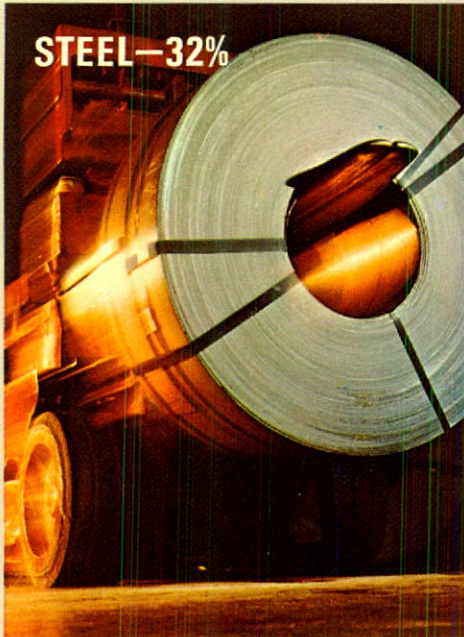
A PROFILE OF INTERLAKE'S BUSINESS—1968*

TEAR OUT HERE

	IRON	STEEL	PACKAGING SYSTEMS	STORAGE SYSTEMS
SALES	<ul style="list-style-type: none"> ■ \$46.1 million; 16% of total company sales, down 4% from 1967 ■ Prices firm, imports have impact 	<ul style="list-style-type: none"> ■ \$91 million; 32% of total company sales; up 3.5% from 1967 ■ Prices unstable at year end; imports have impact ■ Long-term sales growth pattern in steel 	<ul style="list-style-type: none"> ■ \$88.9 million; 31% of total company sales, including volume of storage systems and international sales; volume rose 14.1% in 1968 ■ Modest price increases ■ Steady, long-term growth predicted 	<ul style="list-style-type: none"> ■ Sales up over 1967; dollar volume included under packaging systems ■ Modest price increases ■ Demand ahead of production capacity ■ Some of fastest growing lines
PRODUCTS	<ul style="list-style-type: none"> ■ Pig iron, molten iron, coke, coal chemicals 	<ul style="list-style-type: none"> ■ Hot and cold rolled strip and sheet steel, alloy sheet, line and spiral weld pipe, hoops and other products ■ Ingot production: 1,075,000 tons 	<ul style="list-style-type: none"> ■ Steel, nylon, polypropylene strapping ■ Tools and machines for applying strapping ■ Stitching wire and machines ■ Inflatable dunnage 	<ul style="list-style-type: none"> ■ Storage rack ■ Slotted angle ■ Automated and manual pallet storage and retrieval systems ■ Flexible conduit, rims, ties
MARKETING HIGHLIGHTS	<ul style="list-style-type: none"> ■ A major domestic merchant iron producer ■ Primarily to the foundry industry; 44% used internally ■ Imports cutting into markets 	<ul style="list-style-type: none"> ■ Sixteenth largest steel producer in U.S. ■ Automotive, farm implement, appliance, aerospace industries, gas and oil distribution; 25% used internally ■ Specialize in quick mill service and "made to order" steel ■ Unique capabilities for narrow widths ■ Imports cutting into markets ■ Sold by company sales force 	<ul style="list-style-type: none"> ■ One of the world's largest producers ■ Most industries served ■ Repeat customers ■ Equipment keyed to labor, time savings ■ Competition strong ■ Use packaging systems selling concept ■ Marketed by company sales force 	<ul style="list-style-type: none"> ■ One of major companies in this business ■ Storage and warehousing in all industries, concentrating on new facilities, plant renovations ■ One of most complete storage system product lines available ■ Systems selling a reality ■ Moving closer to totally automated warehouse ■ Marketed direct and by distributors
CAPITAL SPENDING AND MAJOR VENTURES	<ul style="list-style-type: none"> ■ \$2.9 million spent for facility improvements ■ A major blast furnace relined ■ Further progress on pollution control facilities 	<ul style="list-style-type: none"> ■ Production capacity strained in first half ■ \$3 million spent for facility improvements ■ New descaling system on No. 4 hot mill ■ New ultrasonic pipe testing equipment ■ Further progress on pollution control facilities 	<ul style="list-style-type: none"> ■ Operations near capacity ■ \$5.5 million spent to upgrade capacity and quality ■ Major new strap manufacturing facility began production at Pittsburg, California ■ Joint venture completed to manufacture machines ■ Several new strapping and stitching concepts introduced 	<ul style="list-style-type: none"> ■ Made full use of 1967 capacity expansion ■ Automatic and manual Courier system introduced ■ First Courier sale ■ New type pallet rack introduced ■ West Coast warehouse established ■ New automatic beam welding line installed
PLANT LOCATIONS	<ul style="list-style-type: none"> ■ South Chicago, Illinois ■ Toledo, Ohio ■ Erie, Pennsylvania 	<ul style="list-style-type: none"> ■ Riverdale, Illinois ■ Newport, Kentucky ■ Wilder, Kentucky 	<ul style="list-style-type: none"> ■ Pittsburg, California ■ Riverdale, Illinois ■ Racine, Wisconsin 	<ul style="list-style-type: none"> ■ Los Angeles, California ■ Pontiac, Illinois ■ Riverdale, Illinois

*Interlake operates seven major businesses throughout the free world. This removable foldout presents a profile of the important aspects of these seven businesses in 1968, plus a ten-year financial summary on the back. About three percent of Interlake's total 1968 volume is not represented on this chart but is sales from other sources.

interlake



About 3% of company volume is from sources other than the division sales percentages shown above.

TEAR OUT HERE

DIRECTORS

KEITH S. BENSON

Executive Vice President and Director, Diamond Shamrock Corporation and President, Pickands Mather & Co., a subsidiary of Diamond Shamrock Corporation

*EUGENE P. BERG

Chairman, President, Director, Bucyrus-Erie Company

*MARVIN CHANDLER

Chairman, President, Director, Northern Illinois Gas Company

*JAMES W. COULTRAP

Chairman, Director, Miehle-Goss-Dexter Incorporated

*GEORGE E. ENOS

Chairman of Executive Committee

*G. FINDLEY GRIFFITHS

Chairman and Chief Executive Officer

CARTER KISSELL

Partner in the law firm of Jones, Day, Cockley & Reavis

*REYNOLD C. MacDONALD

President and Chief Operating Officer

GEORGE S. PATTERSON

President, Director, Buckeye Pipe Line Company

LOUIS PUTZE

Group Vice President of The Singer Company, and Director, The Singer Company

FREDERIC J. ROBBINS

President, Chief Executive Officer, Director, Bliss & Laughlin Industries Incorporated

JOHN W. SCALLAN

Director, Pullman Incorporated

LEE C. SHAW

Partner in the law firm of Seyfarth, Shaw, Fairweather & Geraldson

*JOHN SHERWIN

Director, Diamond Shamrock Corporation

JOHN C. VIRDEN

Chairman of Executive Committee, Director, Eaton Yale & Towne Inc.

EDWARD J. WILLIAMS

Executive Vice President, Jos. Schlitz Brewing Company

MORRIS H. WRIGHT

General Partner, Kuhn, Loeb & Co.

*Member of Executive Committee

OFFICERS

G. FINDLEY GRIFFITHS

Chairman and Chief Executive Officer

REYNOLD C. MacDONALD

President and Chief Operating Officer

ROBERT JACOBS

Vice President, Finance

FRANK K. ARMOUR

Vice President, Engineering

DAVID G. BOWSER

Vice President, Globe Metallurgical Division

JAMES W. DUNCAN

Vice President, Iron Division

R. RUSSELL FAYLES

Vice President, Administrative Services and Research

RALPH K. FREW

Vice President, Employee Relations

GEORGE B. HOWELL

Vice President, Acme Products Division

‡WILLIAM R. STEAD

Secretary and Corporate Counsel

‡DONALD H. MacDOWELL

Treasurer

†LESTER W. STOLTE

Treasurer

‡JAMES E. PRIMS

Controller

†Retired 12/31/68

‡Elected 1/1/69

‡Elected 8/1/68 Deceased 1/26/69



INTERLAKE STEEL CORPORATION
310 SOUTH MICHIGAN AVENUE • CHICAGO, ILLINOIS 60604