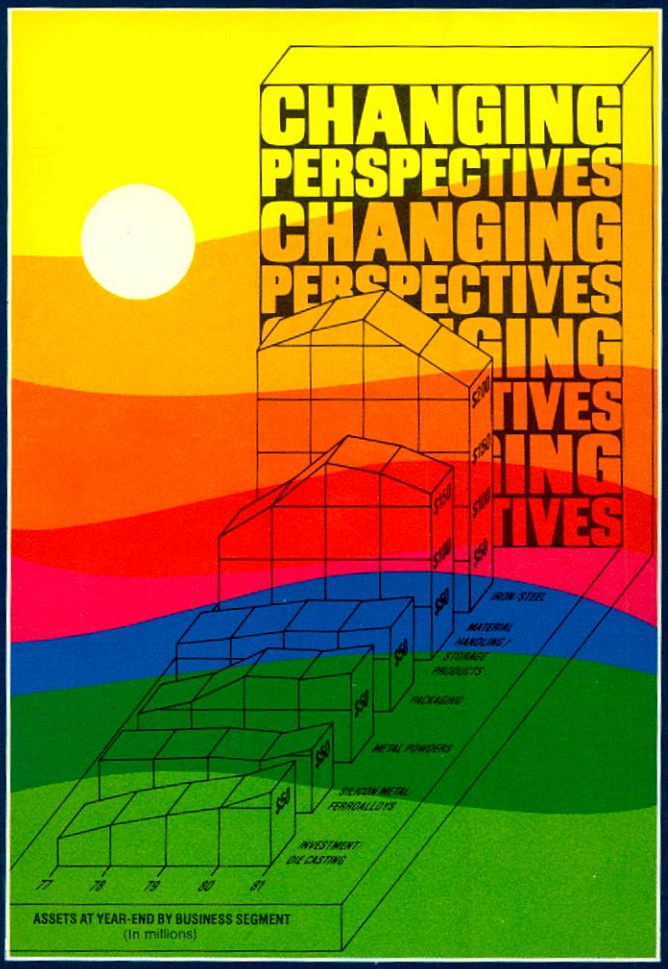
ANNUAL REPORT

1981

interlake, inc.



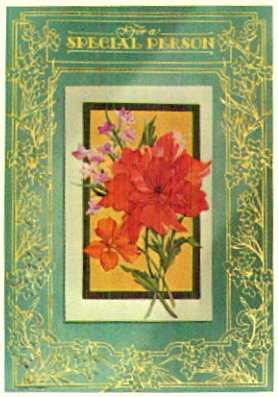
RECORD EARNINGS $7.59 PER SHARE

Below you see the Hallmark Distribution Center ...the heart of their East Coast distribution network. It works because of an automated storage/retrieval system (AS/RS) designed and built by Interlake.

The Hallmark Center is the largest turn-key AS/RS installation ever built. This 320,000 square foot rack-supported complex houses several miles of Interlake conveyors, application-matched flow rack, and over 24 million cubic feet of high-density storage pallet rack.

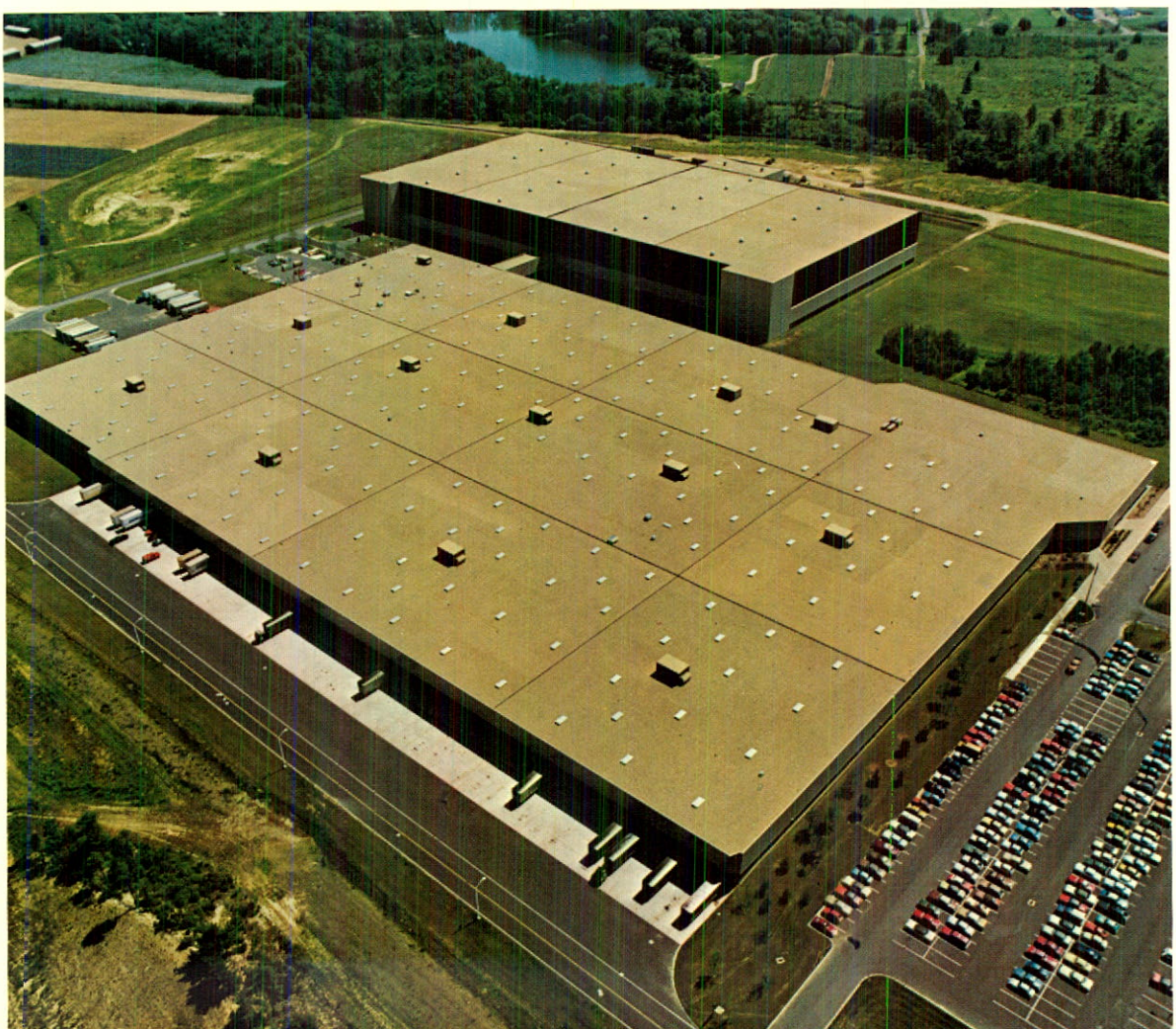
The entire operation-receiving, storage, retrieval, shipping-is managed by Interlake-designed computer software.

Whether you need a simple storage rack or a complete computer-controlled AS/RS project, call Bob Lehmacher, 312/789-0333.

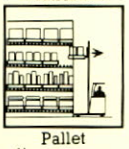


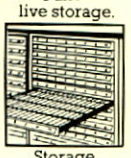
interlake, inc.
Finding Answers in Productive Technology.
2015 Spring Road, Oak Brook, IL 60521

Pick a card. Any Hallmark card. Interlake can help find it.

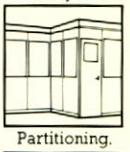


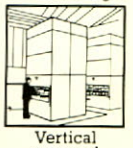

Platforms.

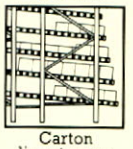

Pallet live storage.

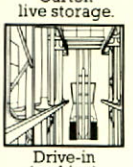

Storage cabinets.

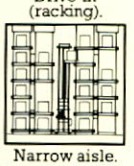

Office systems.

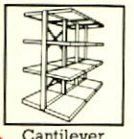

Partitioning.


Vertical carousel.


Carton live storage.


Drive-in (racking).


Narrow aisle.


Cantilever racking.

No-one else could see you through.

Dexion conveyors have mastered the industrial maze.

They can be gravity operated or power driven; turn through any angle; even run up hill.

They can merge numerous streams of traffic accumulate goods safely; and sort them automatically, using laser scanners, at up to 10,000 units per hour.

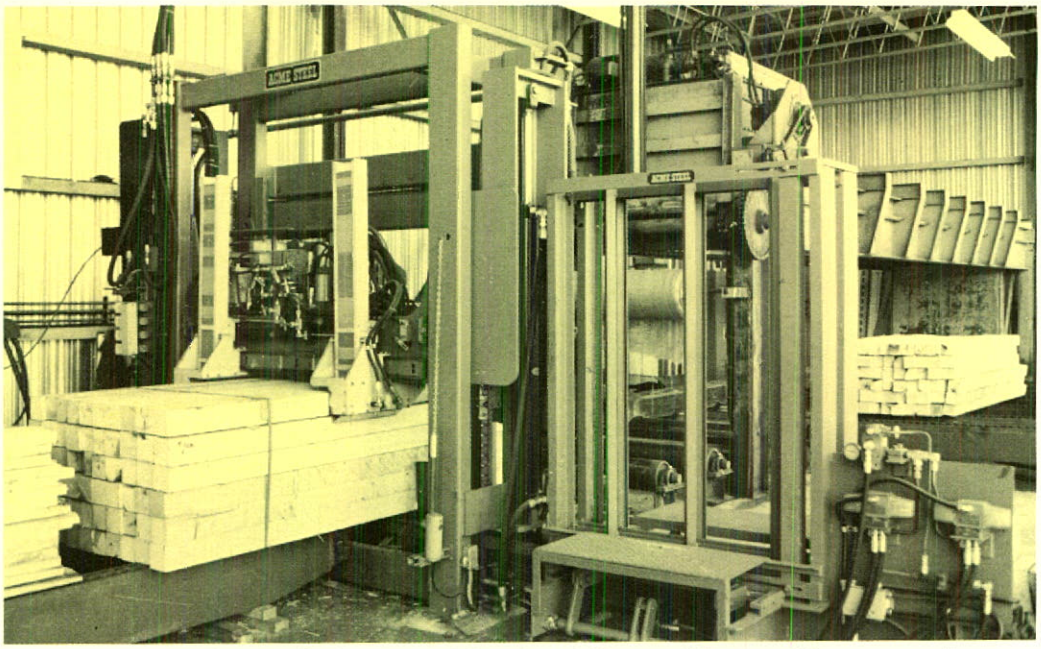
In fact, they can form the only integrated system capable of dovetailing into any production or warehousing operation.

Altogether a notable contribution to the efficiency of British industry. And typical of the enterprise that has made Dexion a world leader in storage and materials handling.

DEXION®

Dexion Ltd., Maylands Avenue, Hemel Hempstead, Herts. HP2 7EW. Tel: 0442 42261. Telex: 825794.

1-16-12

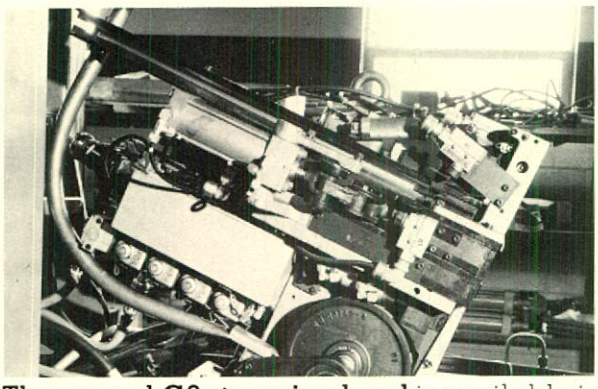


Packing line of British Columbia's Mainland Sawmill Limited has a six chain in-feed transfer, end sqeeze, in-feed roll case, F7B6 Acme hydraulic strapper and a combination twin chain roll case out-feed transfer that can handle packages with or without dunnage.

BUILT TOUGHER!

Acme hydraulic-powered G9 head/F7B6 combination

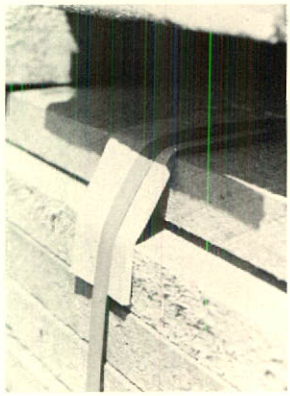
Let us build one for you. Our F7B6-G9 automatic compression lumber strapping machine hydraulically develops top and side compression up to 35,000 pounds and applies bottom dunnage while strapping.



The rugged G9 strapping head is available in hydraulic or pneumatic models and in use has cycled one million times without major parts replacement.

The G9 strapping head (without compression) develops up to 2,000 pounds tension and achieves seal joint efficiencies never before attainable in automatic lumber packaging machines. Also accepts a wide range of strapping gauges.

Optional equipment which can be added at any time: centre or third strap automation; automated dual magazine bunk device; and automated top and bottom fibre or metal edge protector application.



Automatically applied fibre board edge protection follows contours of lumber to produce a superior package.

Increase packaging production through the purchase of our proven F7B6-G9 lumber strapping machine. Contact the ACME "Idea Man" in your area or write for literature to Acme Strapping Inc. 743 Warden Avenue, Scarborough, Ontario M1L 4A9.

ACME Strapping Inc.

Interlake, Inc. 1981 Financial Highlights

For The Year (In thousands)	**1981**	1980	% Change
Net sales	**$1,016,605**	$1,055,883	− 3.7
Net income	**46,577**	13,818	+237.1
Capital expenditures	**37,393**	31,276	+ 19.6
Cash dividends declared or paid	**14,735**	13,287	+ 10.9
At Year-End (In thousands)			
Working capital	**$ 199,803**	$ 181,145	+ 10.3
Current ratio	**2.2 to 1**	2.0 to 1	+ 10.0
Property, plant and equipment–net	**263,296**	254,855	+ 3.3
Long-term debt, less current maturities	**126,618**	133,020	− 4.8
Shareholders' equity	**358,748**	336,707	+ 6.5
Shares outstanding	**6,179**	6,089	+ 1.5
Per Share Statistics			
Net income	**$ 7.59**	$ 2.29	+231.4
Cash dividends declared or paid	**2.40**	2.20	+ 9.1
Shareholders' equity at year-end	**58.06**	55.30	+ 5.0

Sales and Earnings by Business Segments (In millions)	**Sales**		**Earnings**	
	1981	1980	**1981**	1980
Metals				
Investment/Die Castings	**$ 108.5**	$ 114.3	**$ 14.1**	$ 22.0
Metal Powders	**87.7**	70.9	**16.9**	8.9
Silicon Metal/Ferroalloys	**95.7**	84.5	**8.9**	6.2
Iron/Steel	**344.2**	325.2	**19.3**	(34.5)
Materials Handling				
Material Handling/Storage Products	**277.4**	350.5	**9.7**	22.6
Packaging	**175.0**	164.1	**13.2**	8.9
Corporate Items/Eliminations	**(71.9)**	(53.6)	**(3.0)**	(13.5)
	$1,016.6	$1,055.9	**$ 79.1**	$ 20.6

Contents

To Our Shareholders and Employees:

1981 was Interlake's best earnings year ever. Your Board of Directors is pleased with the results, and so are we.

1981

The year started off strong, giving Interlake the early momentum that helped generate record earnings. But conditions began to change during the third quarter, and by year-end business had dropped off rather sharply.

Fourth Quarter

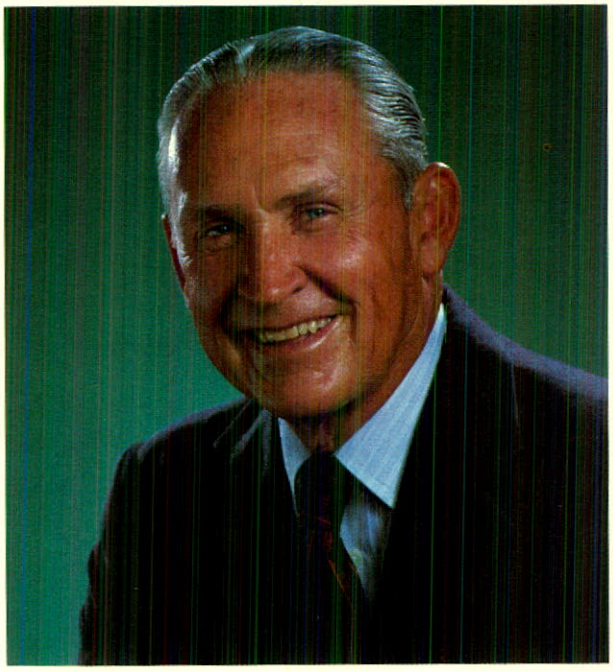
Fourth quarter net income dropped to $11.7 million, or $1.88 per share, compared with $19.4 million, or $3.21 per share, the year earlier. The 1980 fourth quarter included $1.66 per share in favorable adjustments for foreign exchange, LIFO inventory liquidations and United Kingdom stock relief tax credits. Excluding these items, 1981 fourth quarter results were slightly higher than those a year earlier.

Fourth quarter sales were $227 million, compared with $254 million in the last three months of 1980.

Best Earnings Year

1981 net income reached $46.6 million, equal to $7.59 per common share, a new high for your company. In 1980, after the $4.10 per share provision for the shutdown of two steel plants, net earnings were $13.8 million, or $2.29 per share.

1981 sales were slightly over $1 billion, but they were moderately under those a year earlier. The key reason: loss of sales from steel operations shut down in 1980.



Reynold C. MacDonald

How Our Businesses Fared

As we reported in our preliminary report, 1981 performance varied among Interlake units.

On the plus side, near capacity operations produced some divisional sales highs and substantial earnings improvements. On the minus side, some divisions did not fare well, faced with softness in key industries and the overall impact of recessionary economic conditions worldwide.

To be more specific:

☐ Chicago iron operations had higher sales and earnings, led by improved iron volume.

☐ Acme Packaging Division turned in record profits, reflecting good performance in most areas, including international.

☐ Globe Metallurgical Division reported record sales and higher earnings for ferroalloy and silicon metal operations.

☐ Hoeganaes, our subsidiary that produces metal powders, turned in record sales and improved earnings.

☐ Interlake's Castings Group had a good year. But investment casting and die casting businesses did not match 1980's record.

☐ Domestic and international material handling and storage products businesses reported lower overall sales and earnings. Dexion-Australia did reach records in both, and Redirack-Canada reported record sales. Domestic sales and earnings were down; and, at London-based Dexion-Comino International Ltd., sales and earnings fell below 1980 records. The key reasons for Dexion's decline: the comparatively higher value of the U.S. dollar in 1981 and the effect this had on translating foreign results into equivalent U.S. dollars, plus the recession in Europe.

Capital Spending–$37.4 Million

Capital expenditures rose to $37.4 million, $6.1 million above 1980 levels. Spending included:

☐ Expansion Projects–$15.2 million (41%)

☐ Modernization and Improvements–$21 million (56%)

☐ Environmental Control–$1.2 million (3%)

Projects with the year's highest spending totals included expansions at the following plants:

☐ Groton, Connecticut, and Tilton, New Hampshire (investment casting)

☐ Garland, Texas (die casting)

☐ Acme Strapping Inc., Canada (packaging)

☐Redirack (Canadian storage products).

In addition:

☐ The new R&D lab expansion at Hoeganaes, Riverton, New Jersey

☐ New facilities to produce polypropylene strapping in Fountain Inn, South Carolina

☐ Installing a new plastic strapping facility for Gerrard Industries in the U.K.

Major rehabilitation and modernization projects included a new 30-inch butt welder line at our Riverdale steel plant, and relocation of Acme Packaging Division's tool and machine operations to Sumter, South Carolina.

1982 Capital Spending

In 1982, we have budgeted $50 million for capital expenditures. Expansion projects in 1982 will use about 30% of total spending. Replacement/improvement spending should account for about 60%, with environmental and other projects charted for the rest.

Industrial Relations

Three labor agreements were settled in 1981–one after a short work stoppage. Each resulted in a reasonable long-term settlement.

Relationships with our unions and unit employees continue on an orderly and constructive basis. We believe this will be a positive factor enabling Interlake to meet the unique challenges facing us in 1982.

Safety: Another Good Year

Interlake employees made another significant improvement in safety performance during 1981. The overall corporate accident rate dropped again.

Safety is one of Interlake's key objectives.

A good safety performance reflects a positive approach to running our business: good attitudes, good housekeeping and a general philosophy of attention to detail.

Safety in work performance is emphasized by top management at all Interlake locations. Every year safety targets are established for each Interlake plant, and those operations that achieve their targets are presented with a Chairman's Safety Award Plaque. Last year, 11 plants made their target safety objectives and qualified for the award. (See p. 13)

ACC Castings, Duradyne Acquired

Two high technology investment casting companies were acquired in 1981. In May, ACC Castings Co., Inc., Santa Fe Springs, California, was acquired for Arwood's Investment Casting Division. ACC produces investment castings for major aerospace and high grade commercial markets.

In July, Interlake purchased Duradyne Technologies, Inc., Mentor, Ohio, which, with Arwood's Jetshapes, now forms a new airfoil castings division. Their products go to the gas turbine industry.

These new additions to the growing list of Interlake companies are in line with our continuing plan to diversify and/or strengthen existing businesses.

Madison Fund: Our Largest Shareholder

As we reported to you during the year, Madison Fund, Inc. has moved forward with plans to increase its Interlake common stock holdings to 30% of total shares outstanding. At press time, they were at the 24% level. This makes Madison Fund Interlake's largest single shareholder.

We regard this as an important and beneficial long-term arrangement for Interlake and its shareholders. The agreement with Madison Fund should improve Interlake's stability and enable it to move forward aggressively with long-term plans.

Our agreement with Madison Fund does not provide for representation on our Board, but we feel such a move is appropriate. Accordingly, your Board of Directors has recommended Mr. Derald H. Ruttenberg, chairman of the board of Madison Fund, for election at the next annual shareholders' meeting.

Board Changes

We were saddened by the death of Walter A. Hamilton in October, 1981. Mr. Hamilton was vice president-public affairs research, The Conference Board, and was a well respected and vigorous member of Interlake's Board since joining it in 1974. He provided meaningful insight and counsel in matters related to public policy and other vital issues. We will certainly miss him and his active participation.

Two other outstanding businessmen joined Interlake's Board in 1981:

☐ Thomas J. Guendel, chairman and chief executive officer of Portec, Inc., and

☐ Erwin E. Schulze, president and chief operating officer of The Ceco Corporation.

These men have extensive industrial experience and will make important contributions to your Board.

Dividend Boosted 18%

The strength of the Company's performance led your Board of Directors to increase the quarterly dividend 18% from $.55 to $.65 a common share in August. We are pleased with this action. It recognizes our policy of sharing earnings growth with shareholders, and it certainly reflects the confidence your Board has in Interlake's financial condition and future.

Changing Perspectives

Interlake keeps changing in positive ways:

☐ Our fundamental financial strength improved...again.

☐ Our diversification and acquisition program is progressing.

☐ Decentralization is in place... and working.

☐ Our work toward greater efficiency and productivity is paying off.

Prosperity is wonderful. But, like success, it is often elusive and fleeting. It takes work. And Interlake employees have been working at it.

Your management has acted deliberately to solve problems and position Interlake for long-term internal and external growth. And this is why we were particularly gratified to see benefits accrue in 1981 from earlier actions.

Modern technology has created an age of incredible change and fantastic pace. It is essential that companies have the competence to keep up...and the willingness to change their thinking. Why and how Interlake's perspectives are changing is the subject of a special essay on page 8.

Frederick C. Langenberg

Outlook

At press time, business is just not good at all. We see a few nudges upward, but nothing that would indicate an upward trend. Many customers are living hand-to-mouth and keeping inventories as low as possible. Overall order entry is low, and profits are strained.

As we said in our preliminary report, we do look for an upswing later in 1982, which will be a very demanding year. It will be difficult for us to match our record 1981 results.

The fundamental strengths of an organization become more apparent in difficult times like these. Employees make it happen. We want to take this opportunity once again to express our gratitude to Interlake people everywhere for a job well done.

Many companies will face similar problems in 1982. Our challenge is to meet adversity head-on and create our own style of positive performance and progress. We are certain Interlake people are equal to the task.

February 17, 1982

Reynold C. MacDonald
Chairman & Chief Executive Officer

Frederick C. Langenberg
President & Chief Operating Officer

Changing Perspectives

Modern technology has created an age of incredible change...at a fantastic pace. Old ways grow obsolete in a hurry these days.

If we're to be successful, we must understand and anticipate change...and adjust to its forces.

We must have the competence to keep up...and plan ahead. Our perspectives must change as we progress along our path. On the whole, we think Interlake's approach has positioned us well to meet the future.

Our Planned Future

Interlake is a company in transition and growth. We believe a company with these attributes has a positive destiny in the years ahead.

- ☐ a written plan of financial and operating objectives and business strategies
- ☐ good profit margins, positive cash flow and a strong financial position
- ☐ a commitment to excellence and above-average achievement
- ☐ operating leadership with an aggressive flair
- ☐ product and market leadership
- ☐ diversification strategy.

Interlake is such a company.

We are constantly asked questions about operating objectives, business strategies, acquisitions and social responsibility. Here are brief comments about these and other related matters that help explain the evolution taking place at Interlake.

Perspective: Operating Objectives

Growth

Our goal is to achieve consistent above-average earnings growth...and to share this with Interlake shareholders through a long-term predictable and reliable dividend policy. We're not interested in bigness for its own sake. We prefer to expand sales only if this helps improve our competitive position and return on shareholders' equity.

We plan to grow from within by expanding and strengthening existing businesses. And we plan to continue pursuing our active acquisition program.

Financial Strength

Our goal is to maintain our historically strong financial position. We try for above-average liquidity and above-average cash flow, because these give us financial capacity to support our growth objectives.

Organization and Structure

We've realigned our company. What has happened are two separate but related activities.

☐ **We have decentralized.** That means we have distributed certain decision-making powers more broadly to the cutting edge of product and market opportunity.

☐ **We have divisionalized.** This means we've restructured the Company into distinct operating units. Each division president has control over the integrated functions he needs to make his division succeed (i.e., engineering, manufacturing, marketing and administrative support, etc.).

Decentralization is a *long-term* effort as far as we're concerned. We're doing it for several reasons.

- ☐ We felt the need was obvious and the time was right.
- ☐ We think the realignment is essential for the kind of company we're building.
- ☐ Our divisions have grown to the point where autonomy makes good sense.
- ☐ We must have a fluid, action-oriented organization to deal with the 1980s.
- ☐ We think Interlake will gain more innovation across the board because innovative behavior normally takes root faster in small- and middle-sized organizations.
- ☐ We think decentralization opens up new opportunities for exceptional individuals in our company...whose career paths might otherwise be blocked.

Perspective: Business Strategies

We operate with many business strategies. Here are several key ones.

☐ **We're working to recognize and develop our most important resource—people.** We are striving for a work environment that encourages and rewards innovation and above-average performance. Our goal is to attract and keep exceptional, productive people who are challenged by the pursuit of high goals and motivated by opportunity to satisfy personal and corporate goals.

☐ **We will promote and encourage entrepreneurial management.** We welcome flexibility. We'd prefer to have individuals use their business judgment with a minimum of constraints. Individual initiative is the basis for entrepreneurial attitudes that have flourished in many of our more recently acquired companies. And we see no reason to change a good thing. Of course, we have had to blend this entrepreneurship with professional and managerial strengths plus other resources available at the corporate office ...strengths available only from a larger organization.

☐ **We will concentrate on businesses with good profit margins.** We'll strive to improve overall performance by accelerating the development of selected successful product lines. At the same time, we want to reduce our dependence on below-standard performers.

☐ **We want to control our own destiny by not having our growth depend upon any single market or product.** Our goal is to have a significant leadership position in the market segments we serve. And we are doing quite well. But attaining a significant measure of control over Interlake's destiny is a formidable challenge in today's complex and highly regulated business environment. To that end...

- ☐ We're creating a diversified product base so we're not as dependent on any one product or market.
- ☐ We're building on existing strengths and concentrating our resources on those products compatible with our proven skills in product development, manufacturing and marketing.
- ☐ We are concentrating, in some of our businesses, on segments of a market to gain leadership.

This strategy will be implemented by our divisions and subsidiaries, whose products often carry their own particular company logos where their names have become recognized leaders and key factors in the market (Hoeganaes, Arwood, Globe, Dexion, Acme, etc.).

☐ **We want divisions to develop products for selected market segments that are demonstrably superior and hence accorded a premium value.** What we mean is a product or market position that enables us to earn better margins over an extended time. We know this can be accomplished several ways.

☐ We can use our own manufacturing know-how to make our own products more efficiently than others.

☐ We can create products that incorporate special performance characteristics such as reliability (e.g., parts that will not fail, etc.).

☐ We can design easier-to-operate products.

☐ We can develop our own patents, marketing strengths or special technical know-how.

The important point is that we are not going to be satisfied with average performance. By capitalizing on our unique strengths, we will strive to give customers better value and a better product.

We know markets are getting tougher. Finer and finer differences separate the leaders from also-rans. For that reason, we are hammering home to all employees the critical nature of quality. If we do not deal with this issue, competitors will.

☐ **We must zero in on productivity.** Productivity is the key to anybody's future profitability. The move to robotics... more efficient use of machines and people...and, of course, energy conservation, are key. Your attention is called to the first issue of *InterViews* magazine for shareholders mailed last spring. Please read the interview with President Fred Langenberg where he discusses these factors that will influence our position in the future.

Perspective: Future Acquisitions

Acquisitions will be a prime thrust in Interlake's future. There are obvious reasons for growing this way, and we have discussed them over the past years in our reports to you.

We expect our acquisitions:

☐ to contribute a significant portion to the future growth of Interlake

☐ to be companies that are at the forefront of their particular market and technology–industry leaders

☐ to be companies that offer us growth and innovation in compatible new fields, that complement or accelerate growth of existing businesses

☐ to have a significant share of the markets they serve

☐ to show above-average growth potential within their industries

☐ to possess strong management–entrepreneurially oriented–which has proven that a satisfactory rate of return on invested capital can be earned in the business

☐ to have people who can contribute to the continued success not only of their businesses, but also to that of our overall company.

Perspective: Social Responsibility

Every American corporation today faces persistent pressures to become more closely involved in social change. Interlake and its people participate in many community activities, as does the Interlake Foundation. We work with civic, social, cultural and business organizations.

Many of our successful programs are aimed at youth, because we believe it's our responsibility to reaffirm values so essential to America's strength: our traditional values of self-reliance, individual responsibility, respect for the rights of others and a life of freedom in this country.

Each day we're asked to commit more and more Interlake time, talent, money or other resources to all sorts of activities. Obviously, we can't do everything. We must establish priorities. Our activities concentrate on the following five areas of concern.

☐ **Support of private enterprise system.** We believe our private enterprise system offers the best opportunity to allocate resources efficiently. Interlake will conduct its business in a fair and ethical manner and will promote ideas and programs which will strengthen an environment conducive to maximizing the wealth of society.

☐ **Government.** Interlake will oppose any government proposals which jeopardize our American economic and political system. The Company will be prepared to express its opinion on appropriate public issues to legislative bodies, government agencies and civic and industry groups.

☐ **Job satisfaction/motivation.** Management commits itself to develop the skills and abilities of people and to create an open and challenging environment which is conducive to self-expression and personal well-being.

☐ **Training, education and equal opportunity for employees.** It is management's goal to maintain good relations among all employees based on a sense of participation, mutual respect and an understanding of common objectives. The Company will provide equal opportunities in employment and advancement, and will encourage employees, at all levels, to participate in training or educational programs and receive the benefits of a more responsible position within the Company. The exchange of ideas and techniques will be encouraged.

☐ **Environmental control.** Interlake will continue its efforts to minimize, at a reasonable cost, objectionable discharges from its facilities. Our expertise in the environmental field may be extended to communities in which the Company operates. We offer to cooperate with local officials in solving environmental problems.

Ralph K. Frew, Vice President, Employee Relations (left). H. Harry Henderson, Vice President, Marketing and Public Affairs.

Interlake, Inc.

Officers:

Reynold C. MacDonald ..... Chairman of the Board and Chief Executive Officer
Frederick C. Langenberg ..... President and Chief Operating Officer
Robert Jacobs ..... Executive Vice President-Finance and Planning
Raymond T. Anderson ..... Treasurer
Frank K. Armour ... Vice President-Engineering and Research
Ralph K. Frew ..... Vice President-Employee Relations
H. Harry Henderson ..... Vice President-Marketing and Public Affairs
Grant L. Johnson .... Vice President-Law and Administration
Ian R. MacLeod ..... Secretary
Richard I. Polanek ..... Controller

Directors:

Reynold C. MacDonald ..... Chairman and Chief Executive Officer, Interlake, Inc.
Keith S. Benson ..... Retired Executive Vice President-Finance and Administration, Oglebay Norton Co.
Eugene P. Berg ..... Chairman, Automatic Spring Coiling Company
Thomas J. Guendel ..... Chairman and Chief Executive Officer, Portec, Inc.
Robert Jacobs ..... Executive Vice President–Finance and Planning, Interlake, Inc.
Frederick C. Langenberg ..... President and Chief Operating Officer, Interlake, Inc.
Louis Putze ..... Consultant to Rockwell International Corporation
Erwin E. Schulze ..... President and Chief Operating Officer, The Ceco Corporation
Lee C. Shaw ..... Partner, Seyfarth, Shaw, Fairweather and Geraldson
Herbert A. Spring, Jr. ..... Attorney
Edward J. Williams ..... Chairman, President, and Chief Executive Officer, McGraw-Edison Company
Morris H. Wright ..... Advisory Director, Lehman Brothers Kuhn Loeb Incorporated

Operating Executives:

Hal L. Harman, Group Vice President, Arwood and Duradyne Divisions; Regis A. Vey, Group Vice President, Packaging and Storage Products Divisions; H. Lewis Biggerstaff, President, Arwood Die Casting Division; Bruno Botti, President, Duradyne Technologies, Inc.; Alfred D. Gate, President, Globe Metallurgical Division; Stephen Hinchliff, Chairman of the Board, Dexion-Comino International, Ltd.; Bernard J. Lavins, President, Material Handling and Storage Products Division; Brian W.H. Marsden, President, Iron and Steel Division; Joseph J. Shiel, President, Arwood Investment Casting Division; Alfred G. Ward, President, Acme Packaging Division; Ian A. White, President, Hoeganaes Corporation.

Annual Meeting

Shareholders are invited to attend the Corporation's 1982 Annual Meeting at 10:00 A.M. (Pacific Standard Time) on Thursday, April 22, 1982, at the Fairmont Hotel and Tower, 950 Mason Street, Nob Hill, San Francisco, California. Proxy statements will be mailed in late March.

Dividend Reinvestment Plan

Interlake, Inc. offers its shareholders a dividend reinvestment plan. Participants may reinvest all or part of their cash dividends in Interlake stock at a 5% discount from market price and without payment of brokerage commissions. Optional cash purchases may also be made commission-free. For information write: Secretary, Interlake, Inc., 2015 Spring Road, Oak Brook, Illinois 60521.

Common Stock Listed

New York Stock Exchange, Midwest Stock Exchange

Stock Symbol: IK

Transfer Agent and Registrar

The First National Bank of Chicago, Chicago, Illinois

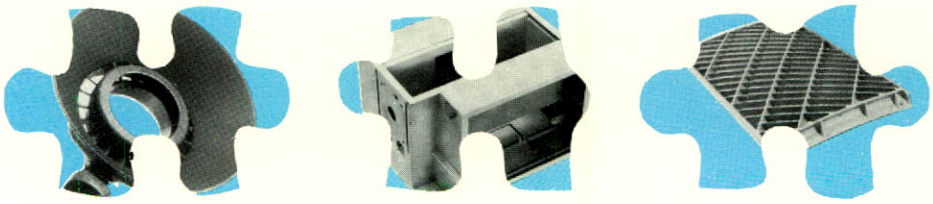
Independent Accountants

Price Waterhouse, Chicago, Illinois

Form 10-K Available

Copies of the Company's Form 10-K Annual Report to the Securities and Exchange Commission are available upon request. Shareholders desiring a Form 10-K or additional information about Interlake should address their inquiries to: Secretary, Interlake, Inc., 2015 Spring Road, Oak Brook, Illinois 60521.

INVESTMENT CASTINGS BY ARWOOD complete the picture for aircraft and aerospace parts that demand highest integrity and accuracy. Arwood's ability to produce complex shapes in more than 80 alloys can fill the problem slots in your design puzzles. Ask for design advice and get your free copy of our useful Handbook of Investment Casting.



INVESTMENT CASTINGS BY

ARWOOD CORP.

subsidiary of

interlake, inc.

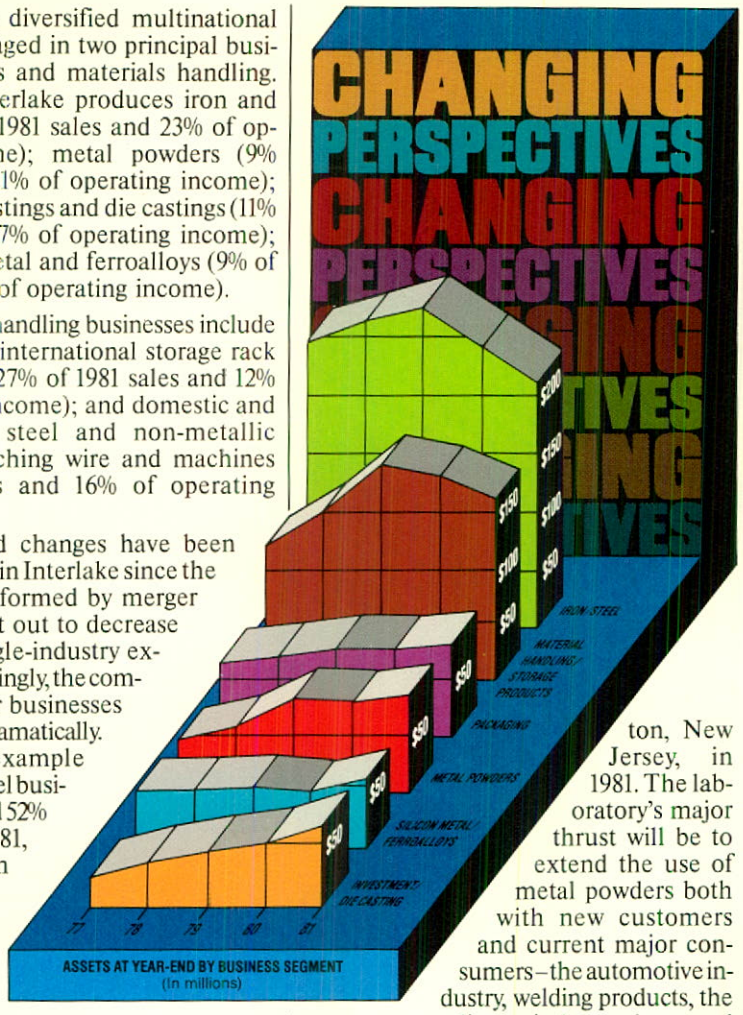
ROCKLEIGH, NJ 07647/201-767-0600

The Corporation—1981

Interlake is a diversified multinational company engaged in two principal businesses: metals and materials handling. In metals, Interlake produces iron and steel (27% of 1981 sales and 23% of operating income); metal powders (9% of sales and 21% of operating income); investment castings and die castings (11% of sales and 17% of operating income); and silicon metal and ferroalloys (9% of sales and 11% of operating income).

Our materials handling businesses include domestic and international storage rack and systems (27% of 1981 sales and 12% of operating income); and domestic and international steel and non-metallic strapping, stitching wire and machines (17% of sales and 16% of operating income).

Major planned changes have been underway within Interlake since the Company was formed by merger in 1964. We set out to decrease Interlake's single-industry exposure. Accordingly, the composition of our businesses has changed dramatically. In 1970, for example the iron and steel businesses produced 52% of sales. In 1981, by contrast, iron and steel accounted for 27% of sales. In viewing assets deployed, in 1977 44% of total assets were employed in iron and steel production; 30% of total assets in 1981.



More recently these changes also led to a decentralized management structure.

This move was begun in 1980 and completed in 1981. Essentially, the system stimulates an entrepreneurial environment within each division, giving operating management greater authority and responsibility for decision-making and profitability.

Gallatin Investment

1981 was the first full year of profitable operations for Interlake's $31 million investment in Hoeganaes Corporation's steel powder atomizing plant in Gallatin, Tennessee. Completed in 1979, the plant reached its predicted production capacity and operated profitably all year. In addition, a technique that speeds the atomizing process at Gallatin proved successful, and will permit a 20% capacity increase when market demand warrants.

Hoeganaes also began the $4 million expansion of its research facility in Riverton, New Jersey, in 1981. The laboratory's major thrust will be to extend the use of metal powders both with new customers and current major consumers—the automotive industry, welding products, the appliance industry, lawn and garden equipment and office equipment.

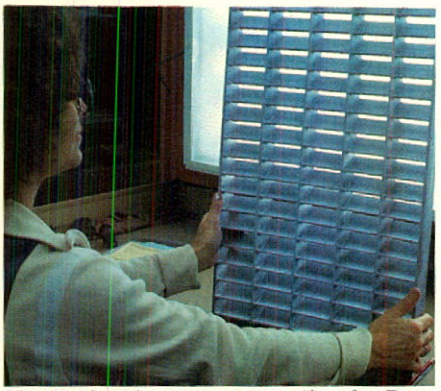
In January, 1982, Ian A. White became the new president of Hoeganaes Corporation following the retirement of R. Russell Fayles. Mr. White joined Hoeganaes in 1963. Mr. Fayles, who joined Interlake in 1964 and served as president of Hoeganaes since 1973, is now acting as president of the Metal Powder Industries Federation.

Expansion In Down Cycle—Castings Group Geared for Recovery

Expansion in a down market may not seem to be a smart move...unless you count aerospace, control instrumentation, communications and computing equipment among your major markets. The castings group does. And Interlake's investment casting and die casting operations invested heavily in the future during 1981.

Duradyne Technologies, Inc. was acquired and, together with Arwood's Jetshapes, now constitutes the airfoil division which supplies the gas turbine industry.

In investment castings, a new plant to produce magnesium castings was constructed in Franklin, New Hampshire, while across the continent, near Los Angeles, ACC Castings was acquired. Plant expansions were completed in Gro-



Magnesium investment casting for Boeing 767 is inspected at Arwood's Tilton, NH, plant.

ton, Connecticut, and Tilton, New Hampshire. The Cleveland, Ohio, plant added an automatic shell line and increased production capacity.

On the die casting side, the Garland, Texas, plant is being nearly doubled in size and production capacity; and a new state-of-the-art 600-ton zinc die casting machine was installed at the Hazleton, Pennsylvania, plant.

Hal L. Harman, Group Vice President, Arwood and Duradyne Divisions.

Under the direction of Hal L. Harman, group vice president, Joseph J. Shiel was named president of the Arwood Investment Casting Division; H. Lewis Biggerstaff, president of the Die Casting Division; and Bruno Botti, president of Duradyne Technologies, Inc.

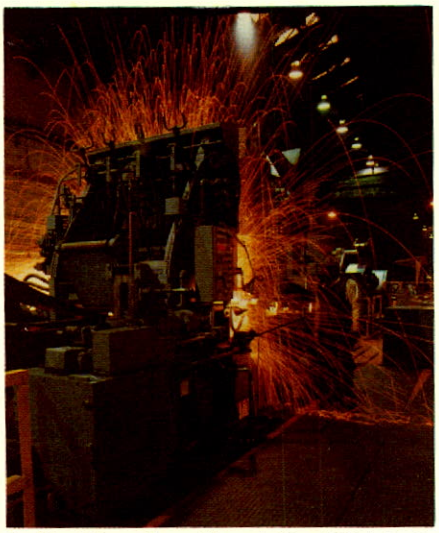
While the castings group had its first sales and earnings decline since acquisition in 1976, many of the industries it supplies can be expected to lead the economic recovery. This Interlake group is positioned to make the most of that situation.

Efficiency and Productivity: Iron & Steel's Battleground

Now consolidated in the Chicago area, Interlake's Iron and Steel Division worked hard to control operating costs during 1981. The division turned to productivity and efficiency as the areas of greatest potential improvement in a year that saw general market conditions decline.

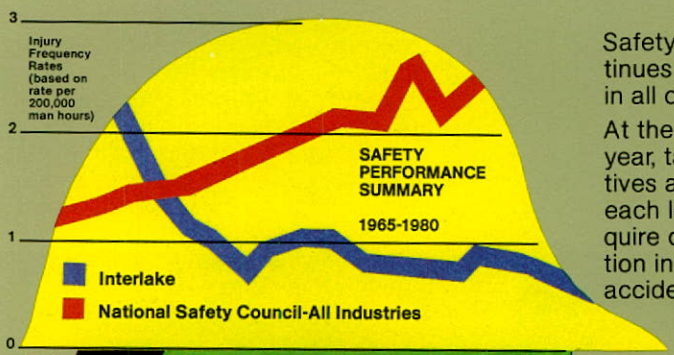
Profit improvement can be traced to increased iron sales. New products included high carbon, high strength steel for the oil exploration industry, and rare earth steels for agricultural equipment. Major markets include mould and stool manufacturing, commercial and industrial machinery, foundries, farm equipment and the automotive parts industry. Division sales improved to $344 million in 1981, compared with $325 million a year ago.

The most basic production processes were upgraded. Coke stability improved through better coal selection. The average heat size in the basic oxygen furnaces



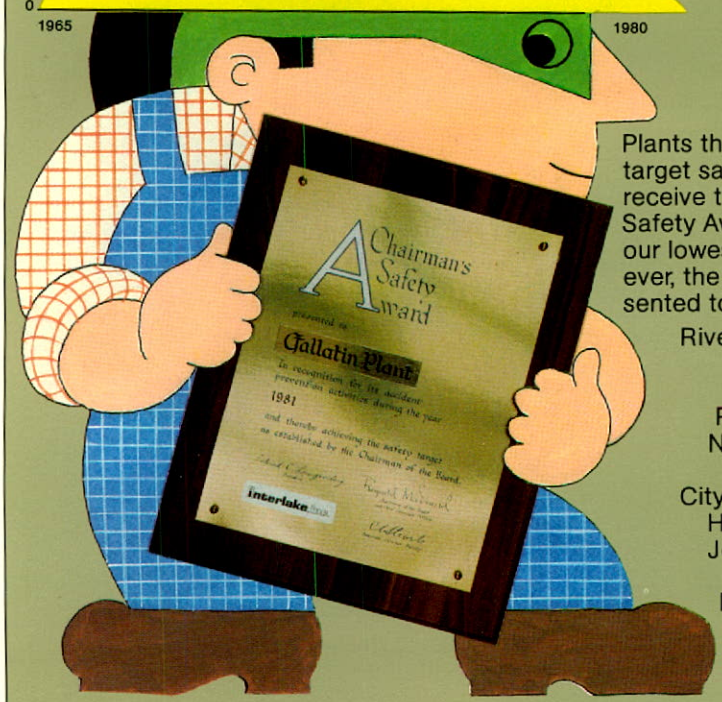
Coil build-up line at Iron & Steel Division's Riverdale, IL, plant.

was increased to 85.1 tons from 80.3 tons in 1980. $3.5 million was invested in a new coil build-up line which now produces the larger coils that customers demand. Across the board, energy conservation was emphasized.



Safety in operations continues to be a basic goal in all of our plants.

At the beginning of each year, target safety objectives are established for each location that require continuing reduction in numbers of accidents.



Plants that achieve their target safety objective receive the Chairman's Safety Award. In 1981, our lowest accident year ever, the award was presented to eleven plants.

Riverdale Steel
Beverly
Selma
Pittsburg
Newburgh
Tilton
City of Industry
High Point
Jetshapes
Gallatin
Riverton

Globe Metallurgical – Does It Again

Much of the domestic ferroalloy industry has succumbed to the pressures of foreign imports. But Interlake's tenacious Globe Metallurgical Division set a new sales record in 1981 and reported the second highest earnings in its history.

While some other producers closed their doors or sold out to foreign interests, Globe entered a new market with micronized ferroalloys. With product sized down to 5 microns, Globe has added the refractory industry to a major customer list that also includes the steel industry, aluminum, chemicals and iron foundries.

And, in an industry where it's definitely survival of the fittest, Globe has moved toward energy independence. For its major process heating needs, Globe began a conversion to natural gas in early 1981. Surveys showed the Company's property had good potential for natural gas discovery. Two wells were drilled that can now supply natural gas to Interlake's Globe Metallurgical Division.

Packaging "Wraps Up" Record Year

Interlake's Acme Packaging Division is active in the U.S., Canada and the United Kingdom. Together these operations added up to the highest earnings ever for the division.

Alfred G. Ward, President, Acme Packaging Division.

The Corporation—1981

Under division president Alfred G. Ward, Acme Packaging took on a fresh aggressiveness that was reflected in activity worldwide. In the U.S., the relocated tool and machine manufacturing function became fully operational in South Carolina. Also in South Carolina, Acme's plastic strapping manufacturing facility completed its first full year of production. This technology was extended to Gerrard in the U.K., enabling that company to begin plastic strap production and increase market share with minimum start-up difficulties.

During 1981, construction and expansion projects were under way at four production sites–Sumter, South Carolina; Fountain Inn, South Carolina; at Gerrard in the U.K.; and at Acme Strapping, Toronto.

Major markets for Acme's products include the paper, primary metals, lumber, clay and glass, and fabricated metals industries.

Down Under on Top in 1981

Good news was hard to find in Interlake's material handling and storage businesses in 1981, except for record sales in Canada and record sales and earnings in Australia.

Dexion-Australia closed the year with record sales and a new earnings record. The operation, headquartered in Sydney, Australia, completed the largest drive-in rack installation in the country, and launched a $2.7 million plant expansion project.

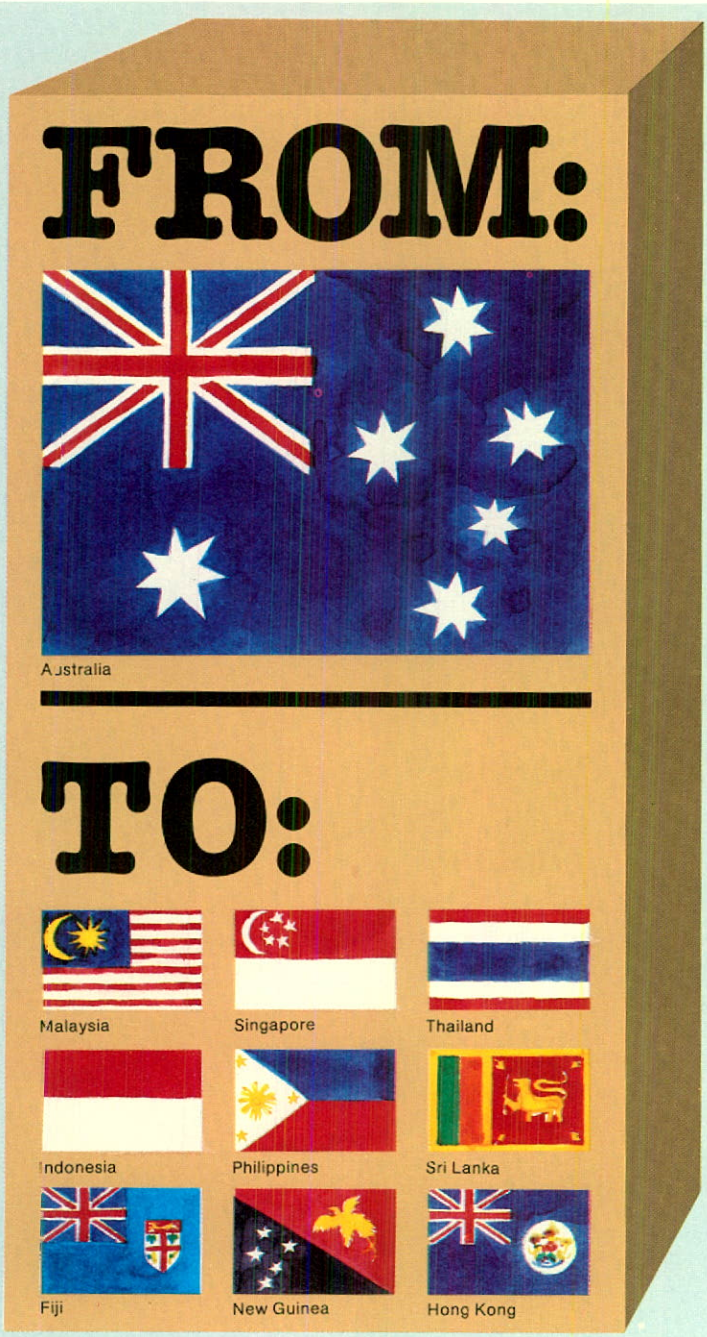
Most importantly, a new export operation was inaugurated. Markets currently under development include Indonesia, Singapore, Malaysia, Thailand, Hong Kong, the Philippines, Sri Lanka, Fiji and New Guinea.

In Europe, Dexion-Comino reported a sales and earnings decline under the pressure of the worst recession in a half-century. But about 75% of the decline was due to translation of foreign currencies into a rising U.S. dollar.

Dexion brought eleven new products to market in 1981, acquired a new controls subsidiary, and expanded an assembly operation in Ireland. Orders for the Courier® automated storage and retrieval system built up during the year.

In Canada, Redirack increased sales volume, but suffered an earnings decline under severe pricing pressure. The difficulties were related to a declining Canadian economy.

Domestic storage and material handling found new business hard to come by. Investment in plant and equipment, particularly for major automated storage systems installations, was at a low point. In short, in-coming systems orders were few and far between during the year.



Ian R. MacLeod, Secretary; Grant L. Johnson, Vice President, Law and Administration.

The critical metals crisis is slowly but surely making its way into the national consciousness. The news is not good. But science, technology and government are determined to avoid another crisis with the scope and the shock potential of OPEC.

Unfortunately, more and more U.S. metals/alloys producers are curtailing operations as Third World manufacturing springs up nearer to the sources of these strategic metals. One Interlake company, Globe Metallurgical, can contribute strategically to the solution of America's dependence on critical raw materials. Globe continues to expand its domestic production and development of critical metal supplies and ferroalloy products. Like silicon metals, ferrochromiums and manganese, aluminum and magnesium ferrosilicon. Many of these products are now on the growing "endangered materials" list.

But keeping supplies flowing to key American industries seems like more than just a good strategy these days.

Interlake and Globe think it's also a good investment in the future of a strong America.

Globe Metallurgical Division
A division of Interlake Inc.
Beverly, Ohio Selma, Alabama

Exclusive Sales Agents: Pickands Mather & Co., Cleveland OH 216-694-5700

One company's strategy for America's strategic metals.

International

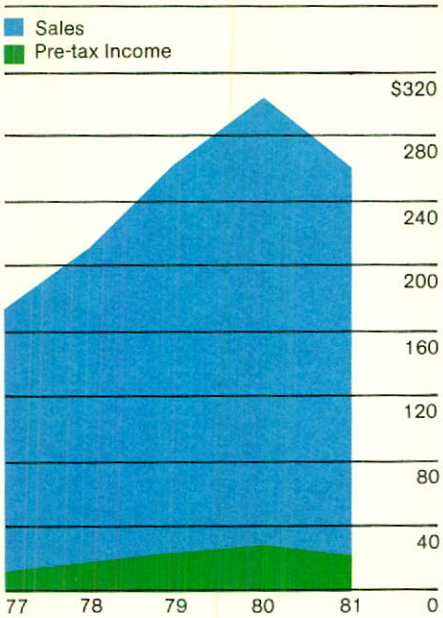
Interlake Worldwide

Assessing Interlake's 1981 performance from a purely domestic perspective is like watching a football game from the top row in the stadium: you can see the game but not all the players.

The players, in this case, include nations around the world where Interlake markets its products and seven where it produces them. Foreign operations have become increasingly important company assets; this year, they contributed 26% of total sales and 27% of income from operations.

But the international perspective includes more than financial statistics. As a multinational producer and seller of goods, Interlake must respond to changing foreign markets, compete with foreign suppliers and deal with the problems of sometimes volatile foreign economies. Further complicating this mix of global marketing variables, fierce foreign competition now threatens domestic sales as never before.

Foreign Operations (in millions)



Mixed Blessings On The 1982 Horizon

Ironically, the U.S. economic recovery expected in 1982 could give foreign competitors still greater advantages, domestically and overseas. Projected growth may push demand levels higher, drawing increased shipments of imported goods. At the same time, stronger American dollars would make these imports relatively cheap–and U.S. products more expensive in foreign markets. On the positive side, such a trend could spell relief for recession-weary European nations, reviving industries vital to Interlake's growth.

Imports Apply Pressure

Foreign competition affects Interlake's iron, steel, ferroalloys and silicon metal businesses. In 1981, pressures were compounded by the already weak automotive and housing markets. Steel imports reached an all-time high during the second half of the year.

Imports continued to plague the ferroalloy industry, although Globe Metallurgical maintained its solid market position in 1981 and saw sales rise. Recent developments prompted new Interlake efforts to initiate a government review of the problem.

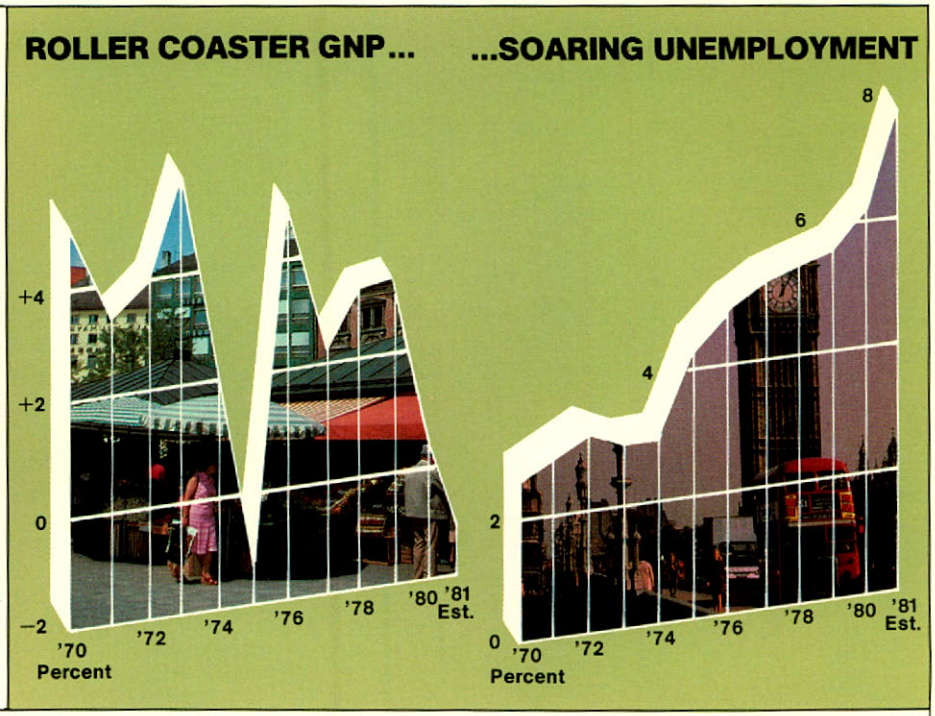
Europe's Economy Staggers

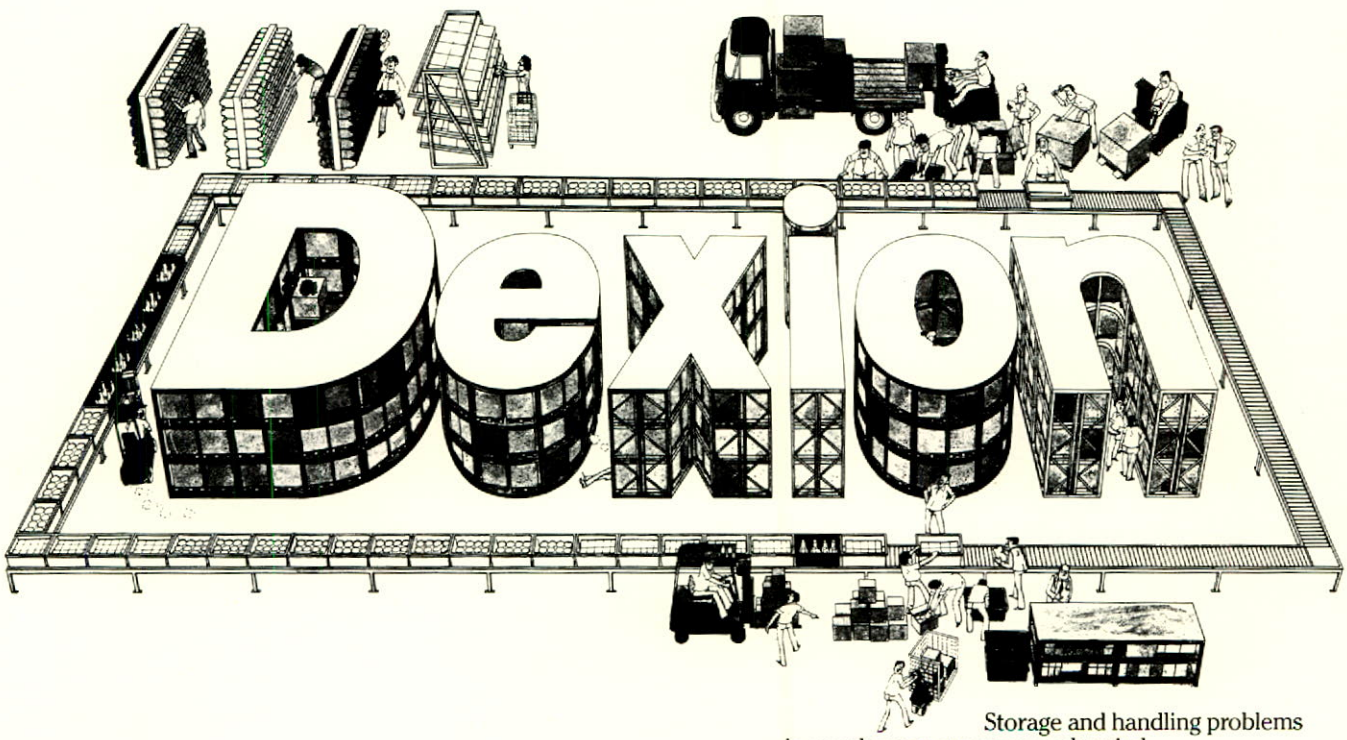
Currently, the picture looks grim throughout much of the European community. And 1982 looks to be–at best–a flat year for most Western European economies. In England, home of two Interlake

His Royal Highness, The Duke of Kent (left) and Stephen Hinchliff, Chairman, Dexion-Comino International.

operations, economic woes persisted during 1981; near 13% unemployment, high interest rates and severely depressed industries characterized the worst recession in fifty years. And both Interlake operations felt the crunch.

Headquarters for Dexion-Comino International, Hertfordshire, England.





Storage and handling problems in warehouses are many and varied.

But with a vast range of equipment and one complete service, Dexion can design, manufacture and install anything from a bay of shelving to a completely integrated warehouse system.

Dexion. Today's warehouse storage and handling systems for Australia.

International

The London-based material handling and storage subsidiary Dexion-Comino International, reported a sales decline. Demand remained strong, however, at the top end of the product line: conveyors and Courier® automated storage/retrieval systems.

Headquarters for Gerrard Industries, Ltd., Acme's U.K. subsidiary.

The news was a little better from Gerrard Industries, Ltd., Acme Packaging's U.K. subsidiary. Gerrard began producing its own plastic strapping this year for the first time. The result: a 13% volume increase, boosting their share of the English plastic strapping market. International marketing activity also increased; Gerrard has a network of ten distributors throughtout Europe.

Canadian Market Weak: Same Familiar Syndromes

Acme Packaging's Canadian operation remained profitable in 1981 despite a blow to one of its primary markets, the lumber industry. Devastated by sluggish U.S. and Canadian housing starts, lumber operations plummeted. Acme-Canada, however, delivered record sales. Continuing with their $6.9 million steel strapping facility expansion evidences expectations for a healthier market in 1982.

Dexion-Australia Moves Out

"Export" was the key word at Dexion-Australia this year. Interlake's growing material handling and storage subsidiary began exporting to promising new markets in the Far East, Southeast Asia and South Pacific. Export sales contributed to record earnings. Dexion also boasts a recently-completed showcase project: a dry boat storage racking at Akuna Bay, a large marina in Australia.

Ferroalloys: A Strategic Industry

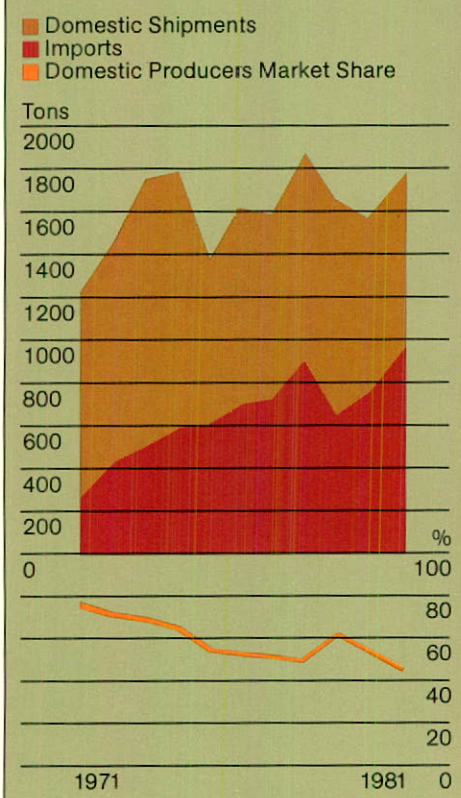
A chill wind has already swept away many of the American ferrochrome producers. In the early 1960s, Globe was one of seven U.S. companies manufacturing both high and low carbon ferrochrome. Today, only one other firm produces high carbon grades and another produces certain low carbon grades. Globe alone produces grades of both.

Rapid erosion of ferrochrome production signals an alarming trend in worldwide ferroalloy industries–alarming because ferroalloys are essential to steel and special metals production and, therefore, to major industries and national defense. The trend began in the 1960s: South Africa and other Third World nations, which once supplied only the raw materials for ferroalloy production, leaped from mining into manufacturing. Armed with substantial pricing advantages–lower labor and energy costs, weaker currencies, government support–they could sell their goods in the U.S. and other industrialized nations for less than the cost of domestic production. Slowly and painfully, they squeezed domestic manufacturers out of business. By 1981, the ferroalloy industry was severely curtailed in Japan–and failing fast in Western Europe.

Globe successfully weathered the storm through operating efficiency, careful raw material sourcing, aggressive pricing and marketing. By positioning itself as a supplier of premium grade ferroalloys, the Company maintained its market share in these products.

Even so, Globe had no time for complacency this year; the crisis continued to pose serious challenges. In 1978, the President, acting on the recommendation of the International Trade Commission, stabilized high carbon ferrochrome prices at about 45¢ per pound by establishing an import floor price. This was extended in November 1981 for an additional year. But a new development last fall threatened to undermine that price structure. Zimbabwe, a leading ferroalloy producer, applied to the U.S. Trade Representative for duty-free status on low carbon ferrochrome. If approved, Zimbabwe's new status could jeopardize Globe's foothold as the last remaining American manufacturer of high and low carbon ferrochrome. A decision in this matter is expected in the next few months.

Ferroalloy Imports Impact Domestic Market



Alfred D. Gate, President, Globe Metallurgical Division.

At stake are more than Globe's profits. "We are dealing with a political question, as well as an economic question," warns Alfred D. Gate, Globe president. "Can we, the United States, afford to be totally dependent on Third World nations for ferroalloys? You can't make steel or stainless steel without these alloys. In fact, our whole metallurgical economy is based on their availability. The answer seems obvious."

The Economy Winds Down, Calls For New Approaches

"Business has only two basic functions–marketing and innovation."
–Peter Drucker
Management Consultant

Innovative and aggressive marketing is, indeed, the fuel of business. But 1981 saw many domestic and international markets heave and sigh and slump as the worldwide recession spread.

Since Interlake's technologies are often *reactive,* we are particularly sensitive to the supply-and-demand mechanisms at work in our major markets. Witness: in 1981 American automobile production operated at about 50% of capacity; U.S. industry as a whole was operating at slightly less than 75% capacity. So Interlake companies serving basic manufacturing industries felt the need to tighten the proverbial belt and bite the well-gnawed bullet.

But the situation hardly calls for wailing and the tearing of hair: instead, it calls for marketing savvy and product innovations.

"Can You Do It?"

New markets did open to Interlake in 1981 via our experience and track record with customers in many key industries. For example, often our customers come to us and say, "Here's what I need. Can you do it?"

Such was the case at Globe Metallurgical, where demand for finer grades of ferroalloys led to a pilot project to supply these new products. Used in refractory and ceramic applications, these ferroalloys are produced by a technological breakthrough called "micronizing": progressively reducing the size of the particle to as small as 5 microns (about .0002 inch). Globe also introduced ferrocalcium silicon this year, an alloy that helps control impurities and improves rolling properties in steel production.

Other examples of responding to market needs are the single crystal and directionally solidified investment casting procedures used by Duradyne Technologies, Inc. (See "R&D/New Technology".) Under a purchase order contract from Pratt & Whitney, Duradyne now casts gas turbine airfoils for the engine maker. When the aviation market takes off again, Duradyne production should be up to full speed.

New Ways To Move Goods

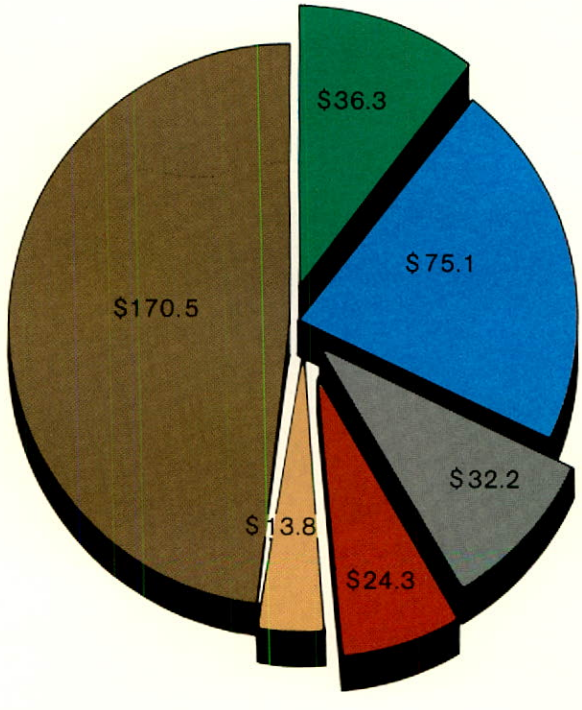
Almost every business has to move and store materials somewhere, sometime, in the manufacturing process. Each year, many millions are invested in products and systems to get that job done. Interlake's Material Handling and Storage Products Division capitalized on several opportunities in 1981.

Selecta-Flo®, a proven carton flow rack system, entered international markets this year through Dexion-Comino International. Applications include foods, drugs, groceries and other products where first-in/first-out stock rotation and simplified, smooth order picking are necessary. Dexion also introduced a narrow aisle version of the Courier® stacker crane for applications where high density storage is the priority.

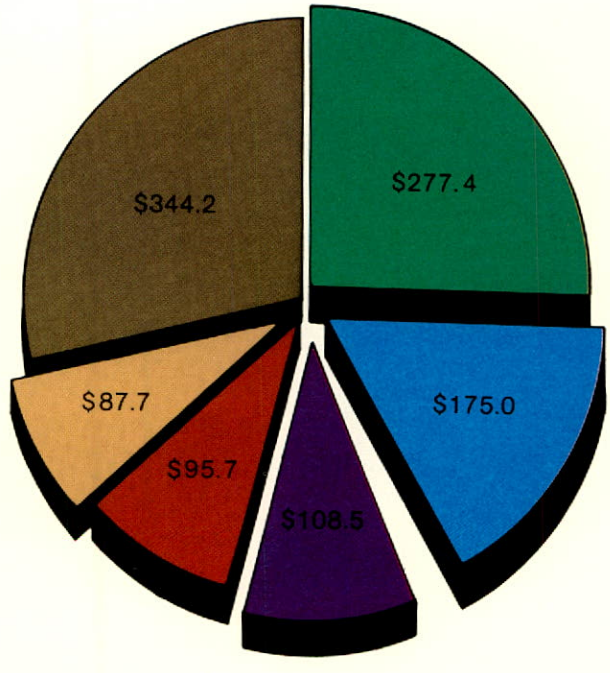
Another division innovation was the KR (kinetic retention) accumulating con-

Where the sales come from...

1971 SALES
(In millions)

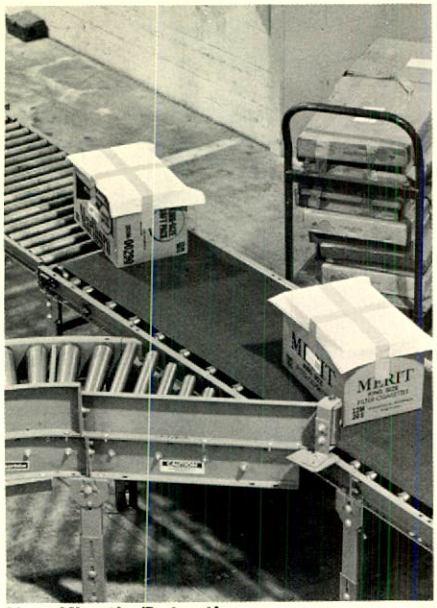


1981 SALES*
(In millions)



*** Includes Intercompany Sales of $71.9 Million**

■ IRON/STEEL ■ MATERIAL HANDLING ■ PACKAGING ■ INVESTMENT/DIE CASTINGS
■ SILICON METAL/FERROALLOYS ■ METAL POWDERS ■ DISCONTINUED OPERATIONS



New Kinetic Retention conveyor.

veyor, built by our A. J. Bayer subsidiary. It's a conveyor system that bunches cartons and controls their flow rate to the order picking or shipping area. With an optional microprocessor-actuated laser scanner, the system can "read" bar codes on the cartons and route them to the appropriate destinations within the warehouse operation. Markets? Practically any warehouse or distribution center needing high-speed sorting, palletizing and shipping.

New Steels For Old Markets

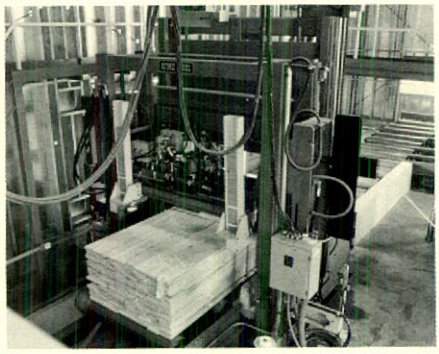
Petroleum and agriculture hardly leap to mind as "new" industries. But traditional tools and methods in these markets are undergoing some "back to the drawing board" activities. And that has created new opportunities for our Iron and Steel Division. The division has introduced a grade of high-carbon steel for petroleum pipe makers that offers high strength for critical connectors, joints and couplings. Similarly, the agricultural implement makers sought special grades of steel for plows, harrows and other ground-engaging tools. The division responded with high-carbon rare earth steels that provide hardness and corrosion resistance without being brittle.

Packaging Wraps Up New Markets

Acme Packaging Division thrives in what are called "mature" markets: brick, pulp and paper, concrete blocks, stevedoring, groceries, cans, bottles, lumber, glass, metals, etc. So sales growth depends on industry experience and product innovation.

Acme Strapping, Canada, saw the forest *and* the trees in 1981 and came up with an improved lumber packaging machine. Sales to the Canadian lumber industry should grow substantially when the North American housing market rebounds.

Acme-Canada's plant at Scarborough, Ontario, was expanded in 1981.



Acme lumber packaging machine straps premium grades.

Gerrard, our U.K. packaging company, started manufacturing its own plastic strapping in 1981 and saw a 13% volume gain in this product line. They also introduced several tools and machines designed to strengthen their position as a full-service supplier to U.K. customers.

Acme Packaging Division on the U.S. front introduced a high-strength regular duty steel strap, which helped boost domestic sales in 1981.

Powder Metallurgy: The Uses Multiply

Metal powders from Hoeganaes now find their way into hundreds of different consumer and industrial products; but compressing or compacting the powders into a shape seems to be only the beginning.

Hoeganaes worked throughout the year with customers on several exciting processes like injection molding of powders, strip rolling of powders for further fabrication and epoxy-plus-powder combinations for special electrical applications. These could open many untapped markets. (See "R&D/New Technology".)

Another product ready for market in 1982 is the SP grade of low alloy powders. These specially "clean" forging grade powders have a low impurity count. This increases fatigue life considerably, making them attractive for bearings and other applications.

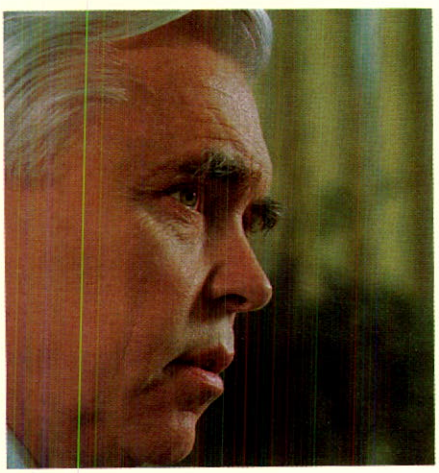
Since Hoeganaes sells much of its product to the automotive and consumer goods markets, it felt the sting of the recession. But a technology like P/M–versatile, fuel/material efficient and competitively priced–had more than enough going for it to ride out the downturn: 1981 saw record sales of $87.7 million and third best ever earnings of $16.9 million.

Arwood Feels The Crunch

The recession took a heavier toll at Arwood Corporation. No wonder, since Arwood's castings (both investment and die) are sold primarily to three of the hardest hit domestic industries: aerospace/aviation, housing and automotive.

But 1981 was hardly a year spent licking the wounds. On several fronts, Arwood geared up for the anticipated 1982 turnaround. (See "Facilities/Expansion".)

On the die casting side, Arwood installed new 400 and 600-ton aluminum die casting machines at four plants, plus a 600-ton zinc die casting unit at Hazleton, Pennsylvania. New facilities are being equipped with robots to increase production efficiency. Arwood also introduced new zinc-aluminum alloy castings. All this puts the division in an excellent position for a 1982 business recovery.



H. Lewis Biggerstaff, President, Arwood Die Casting Division.

On the investment casting side, Arwood turned to new materials, processes and facilities to serve customers in the aircraft and aerospace industries. Magnesium cascades for jet engines and high integrity hot isostatic pressed ferrous castings for extreme fatigue applications are indicative of the sophisticated innovations that make Arwood the leader in its markets.

Consistently . . .

More die casting for your dollar ... Arwood Die Casting

Arwood die castings are made accurately, quickly, consistently and delivered reliably at low cost, by four plants coast to coast. If you'd like to get in on the action, give us a call or send us your specification. It costs nothing to check with Arwood for your die casting needs. Just call Bob Green, collect, in Rockleigh, N.J. at (201) 767-0600.

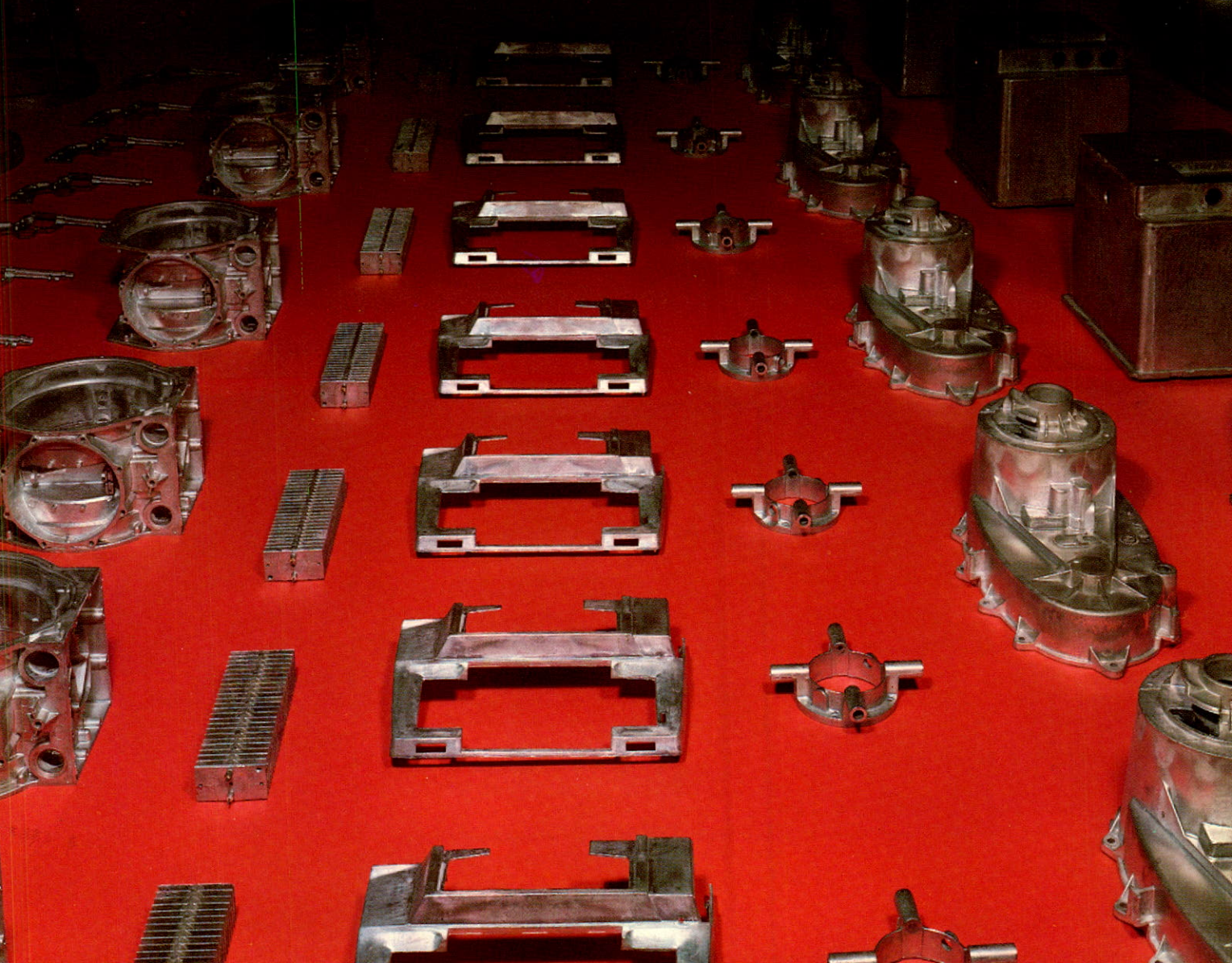
P.S. We have four more plants making investment castings—at your service.

ARWOOD CORP.

Subsidiary of **interlake, inc.**

Rockleigh Industrial Park, Rockleigh, N.J. 07647 (201) 767-0600

Circle No. **65** on Reader Action Card



Facilities/Expansion

Building Today for The Long Term

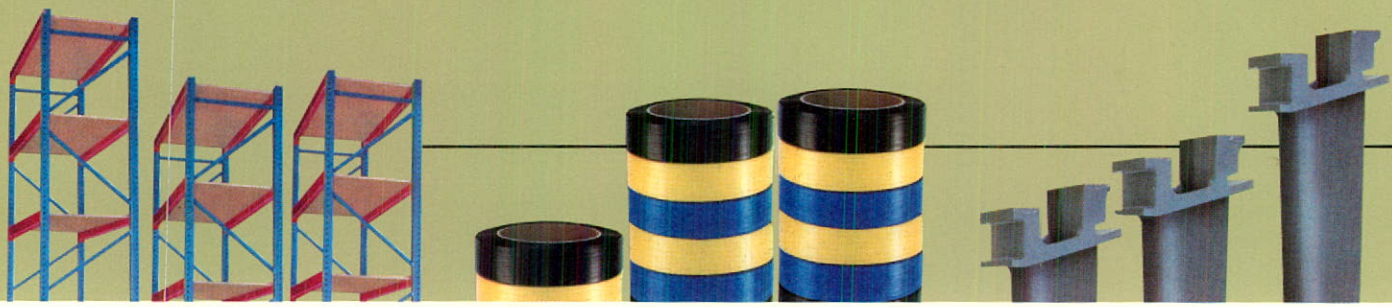
Interlake committed $15.2 million of 1981's $37.4 in capital expenditures to expansion of its high potential businesses.

From new die casting equipment to new R&D facilities to new acquisitions, signs of vigorous Interlake growth were visible in 1981. This acquisition and expansion program represents a $25.1 million investment.

But these vital statistics are only one perspective. More importantly, facilities mean capabilities–the key to Interlake's expansion programs. Behind each blueprint and bill of sale lies a dedication far more basic: to meet the needs for Interlake products and technologies, to anticipate tomorrow's growth industries and to serve customers more efficiently.

Distribution of capital spending (in millions)

	1981	1980	1979
Material Handling/ Storage Products	$ 7.4	$ 7.3	$ 9.3
Packaging	6.8	6.5	2.3
Arwood Investment/Die Castings	8.9	5.3	3.6
Hoeganaes Metal Powders	4.2	3.5	20.4
Silicon Metal/Ferroalloys	3.4	1.1	.9
Iron/Steel	6.7	7.6	33.1
Total Capital Spending	$37.4	$31.3	$69.6



1979 1980 1981 | 1979 1980 1981 | 1979 1980 1981

Material handling/ storage products | Packaging | Arwood investment/ die castings

Decision To Diversify

Pursuit of these goals once again followed the long-term growth strategy charted more than a decade ago. An in-depth, corporate-wide marketing analysis concluded that Interlake's main business (iron and steel) would not be the area of strongest future growth. The decision was obvious: diversify.

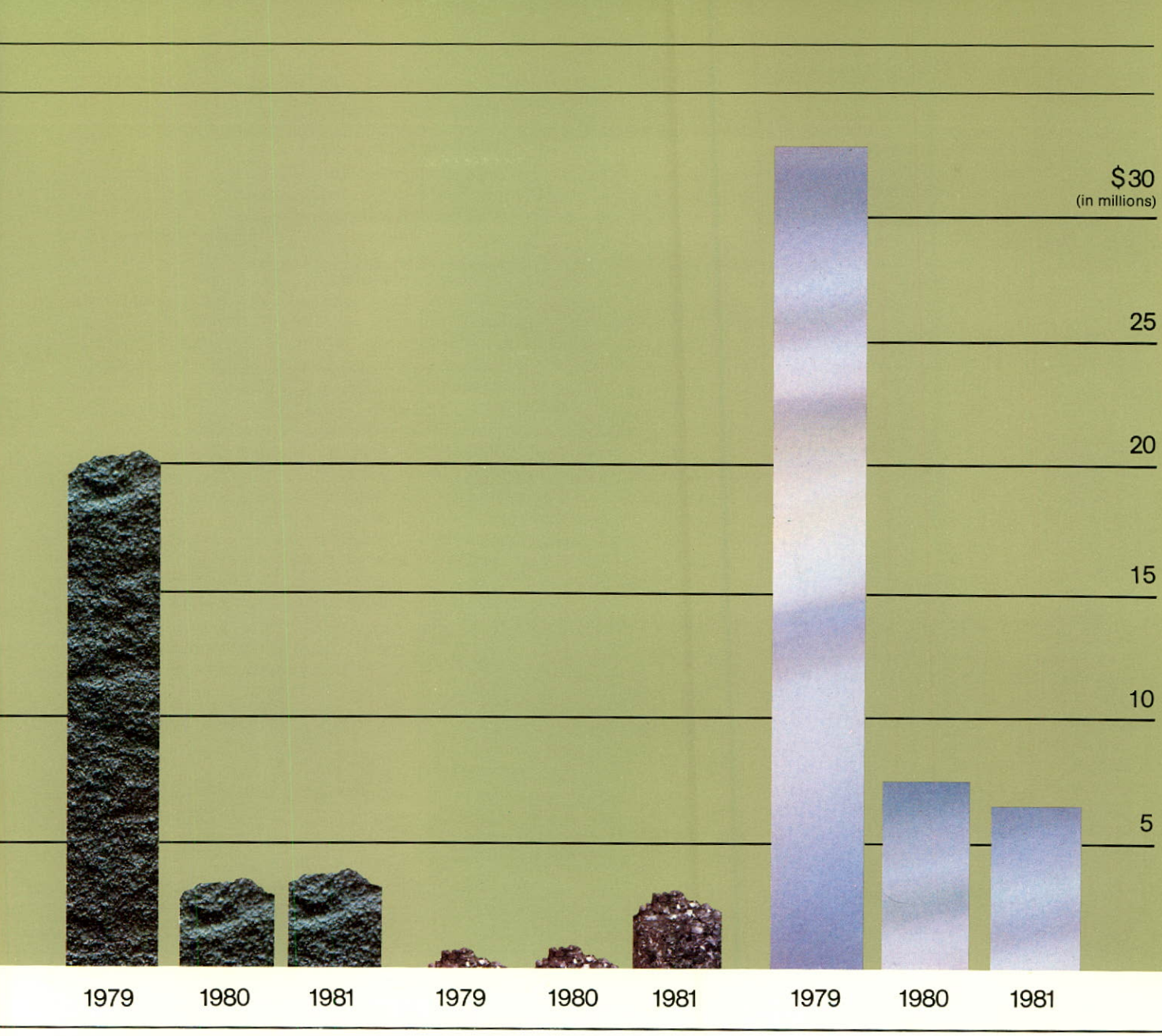
So Interlake decided to put its expansion dollars into its strong businesses and acquisitions, while working to maintain an economically viable position in iron and steel.

Although iron and steel sales have grown since then, the division now contributes a smaller percentage of total Interlake sales. While investments at the Iron and Steel Division were considerable in 1981 (notably, the installation of a $3.5 million coil build-up and inspection line capable of producing a coil with up to 1,000 pounds per inch of width), the most ambitious expansion activity took place at other subsidiaries and divisions. Or, it took the form of acquisition of new companies.

Duradyne Added

Duradyne Technologies, Inc., purchased in July, 1981, produces sophisticated airfoil investment cast parts for the aircraft and aerospace industries. Interlake sees a good fit with the investment casting expertise of its own Arwood Corporation. The acquisition underscored its confidence in the promise of the aviation and

Bruno Botti, President, Duradyne Technologies, Inc.



aerospace markets.

Molding and vacuum melting equipment has already been added to the Duradyne plant. Under a purchase order contract with Pratt & Whitney, Duradyne produces both single crystal and directionally solidified castings for tough, heat-resistant jet engine blades. So Interlake now has important new capabilities for aviation and aerospace.

Arwood Expands

To serve these same markets, Interlake also expanded Arwood Corporation's investment casting facilities. Arwood sales have grown considerably since its acquisition in 1976, largely due to rising demand for investment cast aircraft engine parts and aircraft structural components.

And despite a worldwide market downturn this year, Interlake ranks aviation and aerospace among its most promising growth markets for the 80s. Attesting to that conviction: expanded manufacturing facilities at Arwood plants in Groton, Connecticut, and Tilton, New Hampshire, and the mid-year acquisition of ACC Castings Company based in Santa Fe Springs, California.

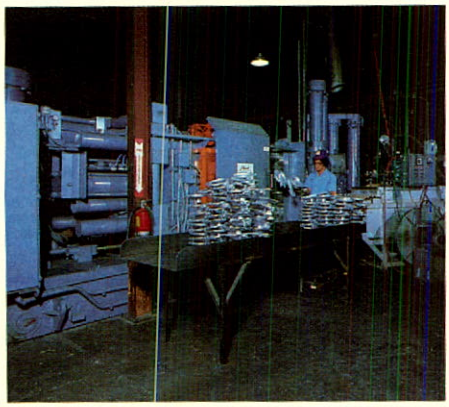
Magic of Magnesium

Arwood also sees solid potential in the magnesium investment casting business–and is currently building toward that future at Franklin, New Hampshire. A new magnesium cascade plant there, scheduled for 1982 completion, will produce jet engine thrust reverser components. These complex fuel-efficient parts require the unique high strength/low weight properties of magnesium. Arwood, a world leader in magnesium investment casting technology, has the

Joseph J. Shiel, President, Arwood Investment Casting Division.

experience to manufacture these cascades to customer standards. Now, with the new Franklin plant, it has the capacity to meet accelerating demand.

Arwood's die casting division has also targeted magnesium as a material of the 80s. True, it costs somewhat more than aluminum. But magnesium's attractiveness is growing brighter–and its use



One of several new die casting machines used with robotics at Arwood plants.

proportionately greater. Arwood installed a new 600-ton die casting machine at Hazleton, Pennsylvania, in April, 1981. The machine, described by *Precision Metal* magazine as "a breakthrough in hot chamber magnesium die casting" improves both production speed and casting quality.

Aluminum Still A Factor

The traditional aluminum die casting market remains important, particularly where aluminum can replace steel parts for weight saving advantages. Another promising market: new, high-strength, harder, zinc-aluminum alloys for die castings needing these characteristics. The alloys are also used where customers need superior wear resistance, as in bearing applications.

A $4.2 million expansion program to double the size and production capacity of Arwood's Garland, Texas, plant, is underway. The initial phase became fully operative in 1981.

P/M Uses Grow–Again

No question: the emerging common denominators of industrial growth in the 80s are innovation and cost efficiency. And Interlake's subsidiary, Hoeganaes Corporation, a leader in metal powder production and technology, offers both. The automotive industry and an ever-growing range of other markets have increased demand for new powders, processes and applications. Yet Hoeganaes claims that the surface of metal powder technology has barely been scratched.

How A Leader Leads

To meet demand, Hoeganaes has to anticipate P/M applications. Groundbreaking for a new $4 million research and development expansion at its Riverton, New Jersey, headquarters took place in April. (See "The Lab That Hoeganaes Built".) The addition will more than double the Company's existing R&D facility. Commented president Ian A. White, "R&D will expand the powder metallurgy market ...and we are at its leading edge. We intend to stay there."

For certain applications, metal powder users may require specialized, extremely precise powder sizes. A new screen cut station at Riverton, New Jersey, separates specified metal powders through a series of selected screens, producing precision screen cuts. These materials are used in a variety of applications.

Ian A. White (right), President, Hoeganaes Corporation reviews expansion plans with R. Russell Fayles, retired Hoeganaes President and now President of the Metal Powder Industries Federation.

Acme Tightens Operations

Some Interlake expansion programs strengthen traditional market positions. Acme–long a leader in steel strapping–has diversified into plastic strapping, first as a distributor and more recently as a manufacturer. Its new plant, completed at Fountain Inn, South Carolina, in 1980, now provides the control and capacity necessary for the high-quality, cost-efficient production of non-metallic strap.

But Acme didn't stop there. It invested nearly $3 million in another segment of its business, strapping tools and machines, by constructing a large plant in Sumter, South Carolina, and relocating an operation previously in Riverdale, Illinois. The new facility has been operational since May, 1981. It's helping Acme meet competitive price pressures in one of its major markets–and, consequently, increase its strapping sales.

Also in May, the packaging division moved to a new marketing and administrative center in Oak Forest, Illinois.

Acme in UK and Canada

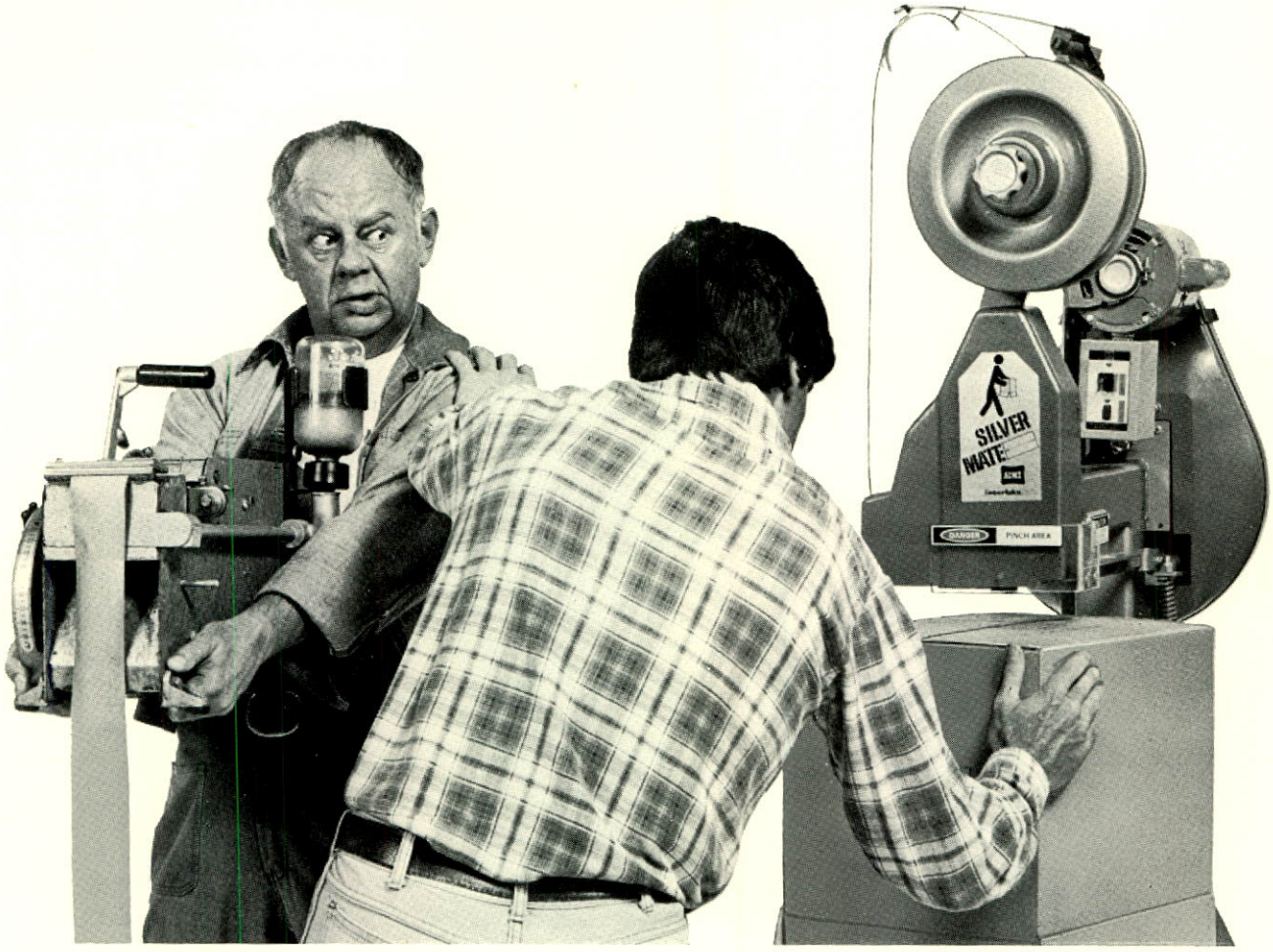
Gerrard Industries, Acme's U.K. subsidiary, also expanded from distribution to production of non-metallic strap in 1981. Gerrard, already leading the U.K. steel strapping market, installed and began operating a new plastic strap manufacturing line at its Kilnhurst plant, with technical assistance from Fountain Inn. Production start-up and marketing efforts proved successful this year. In spite of a stable or declining European market, Gerrard showed a 13% plastic strapping volume gain.

Acme serves one major industry where steel–and only steel–will do: the lumber industry. Division president Alfred G. Ward unabashedly attributes "the best built lumber machine in the market" to Acme-Canada. Expectations for continued growth triggered the $6.9 million expansion–including building construction and installation of a new heat treat and slitter/painter line–at Acme-Canada's Scarborough plant.

Acme Packaging Division's tool and machine production facility at Sumter, SC.

ACME SILVERMATE

The stitcher that puts tape in its place



If you use tape for RSC set-up, chances are, you're wasting money. Sure, the equipment is cheaper, but that's where the savings end. Material costs more. Labor costs more. And, most important, box quality is less—and that can cost you more.

Put tape back in its place—sealing filled boxes—and start saving today. Use Acme Silvermate...the most economical RSC set-up system for light volume operations.

And we've got the numbers to prove it.

Rule 41 requirements per 500 box bottoms: Wide crown staples—2000 ☐ 3" wide, 60 lb. Kraft tape—2045 feet ☐ 3" wide, non-asphaltic reinforced tape—1040 feet. Costs are for setting up an average regular slotted box 12" wide x 20" long.

Material cost (bottoms only)	per day	per year
1¼" Silvermate staples	$2.24	$ 582.00
1¼" belt staples	6.22	1617.00
1¼" or 1⅜" stick staples	4.04	1050.00
Kraft tape	7.15	1859.00
Reinforced tape	9.05	2353.00

Above costs are based on coast-to-coast average selling prices for each closure method, in medium quantity purchase levels.

How much does Silvermate cost?

More good news. Silvermate costs less than $1,200. Add bonus wire you get with your initial order from a participating dealer and the cost is less than that. If you close 500 boxes per day with Kraft tape, the cost savings can pay for the machine in less than six months. After that? The savings just go on and on.

Stronger boxes. Higher production runs. Lower-closure costs. Fast system pay-off. What more can you ask for? Put tape in its place. Call your Interlake dealer today. With our stocking dealer program, you can have your Silvermate on stream-fast.

ACME PACKAGING

a division of INTERLAKE, INC.

4225 Frontage Road, Oak Forest, Illinois 60452 312/535-3100

R&D/New Technology

The Answers Never Come Easily....

"Research and development is an organized method of trying to find out what you are going to do after you cannot do what you are doing now. It may also be said to be the method of keeping a customer reasonably dissatisfied with what he has. That means constant improvement and change so that the customer will be stimulated to desire the new product enough to buy it to replace the one he has."

–Charles F. Kettering
Former Director of Research
General Motors Corporation

That wry analysis may be tongue in cheek, but it sums up Interlake developmental efforts in one simple phrase: constant improvement and change. Indeed, Interlake-developed technologies have helped improve our lives and change our world in many ways, from the cars we drive to the appliances that fill our homes.

From a broader perspective, however, those technologies not only *cause* but also *result* from changes in our world. For example, mass production and transportation systems created the need for packaging, material handling and storage innovations. For example, the economics of oil sparked demand for new metallurgical technology to engineer more fuel-efficient cars.

In short, the products of Interlake technology are very much the products of our time. Through R&D and product development programs, Interlake companies find answers to the needs of customers worldwide–needs that can change as rapidly as newspaper headlines.

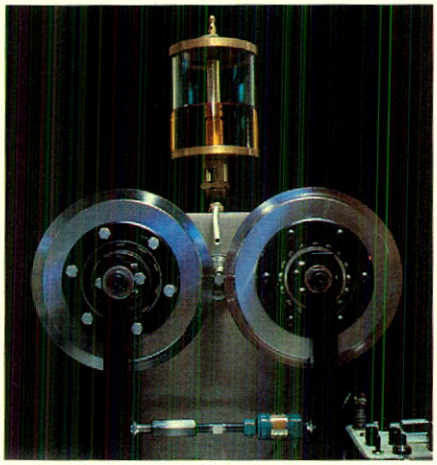
Our research activities are directed toward developing new products, improving present ones, finding new product applications, solving manufacturing process problems, developing new processes and methods and researching and testing raw materials and products.

The answers, of course, don't come easily–or inexpensively. But our investment is vital and it has yielded products that perform better, processes that save energy and materials and systems that work more efficiently. Here are some highlights.

Hoeganaes Expands the P/M Definition

The Federal Office of Technology Assessment ranks powder metallurgy among the nation's three most promising fields of technical development. *Appliance* magazine cites it as a practical answer to rising labor, energy and material costs. Clearly, P/M faces a bright future, and Hoeganaes is the leading innovator in that technology.

One of the fastest growing technologies at Hoeganaes is metal powder *forging* (P/F). This is a forming technique that produces parts with greater impact and fatigue strength than conventional wrought



Fatigue testing of metal powder parts in Hoeganaes' new research laboratory, Riverton, NJ.

materials. Experts predict the market will soar in coming years–with good reason. The process means efficient materials use, reduced machining time and substantial energy savings. P/F parts mean lower cost as well as superior properties.

"It *will* be done because it is cost effective," says Hoeganaes president Ian A. White. "It is, in fact, the most economical way to obtain certain properties." Hoeganaes' R&D department now produces P/F parts for manufacturers on a prototype basis.

At the same time, we're increasing P/F's market potential through another line of research: the development of new, special purity (SP) grade alloy powders. These "cleaner" SP grades, with fewer impurities, can be forged to full density for greater strength than other forged parts. SP forged bearings, for instance, outlast wrought steel bearings by as much as five to one. Enthusiasm for this research remains understandably high.

Casting Operations Grow

Interlake's latest acquisition, Duradyne Technologies, Inc., is helping the jet engine industry cut the cost of flying. Using a single crystal process under purchase order contract with Pratt & Whitney, Duradyne produces investment cast turbine engine blades with no "grain boundaries". Simply stated, the blades are formed of a single, strong crystal–eliminating the need for grain boundary strengthening elements which lower the part's operating temperatures. For engine manufacturers, that means blades can operate with less cooling air and, therefore, greater efficiency.

Magnesium Die Castings

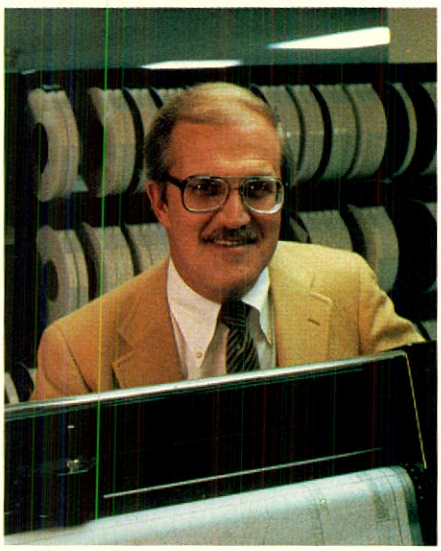
"A breakthrough in hot chamber magnesium die casting," proclaimed *Precision Metal* magazine. They're describing the 400-ton and 600-ton Harvill Horizontal Hot Chamber die casting machines installed by the Arwood Die Casting Division this year. The giant, computer-controlled units combine the advantages of hot and cold chamber die casting methods and can be used for zinc and magnesium.

But the breakthrough is the machine's potential for *magnesium* die casting. Interlake expects demand for these parts to grow in areas where magnesium offers high-strength/low-weight advantages. For die casters, however, magnesium has always posed a difficult challenge: molten magnesium cools so fast that it may solidify in the die cavity before consolidation pressure can be applied. Not so in Arwood's new machine, due to higher injection speeds and pressure capabilities.

More and More Computers

Innovation rarely begins with the discovery of totally new information; it stems from applying existing knowledge–or synthesizing different technologies.

So it's no surprise that computer technology has become a factor in product and process innovations at Interlake.



Regis A. Vey, Group Vice President, Packaging and Storage Products Divisions.

Witness the application of computer aided design (CAD) to storage/retrieval systems by the Material Handling and Storage Products Division. Interlake engineers use CAD to design, display and print blueprints for a rack system or an entire rack-supported building, saving up to 75% in design time. Now customers can "see" a completed system in detail before construction begins.

Interlake's Computer Aided Design (CAD) provides a window on your next project: a window that shows productivity improvements, operational versatility and economic feasibility.

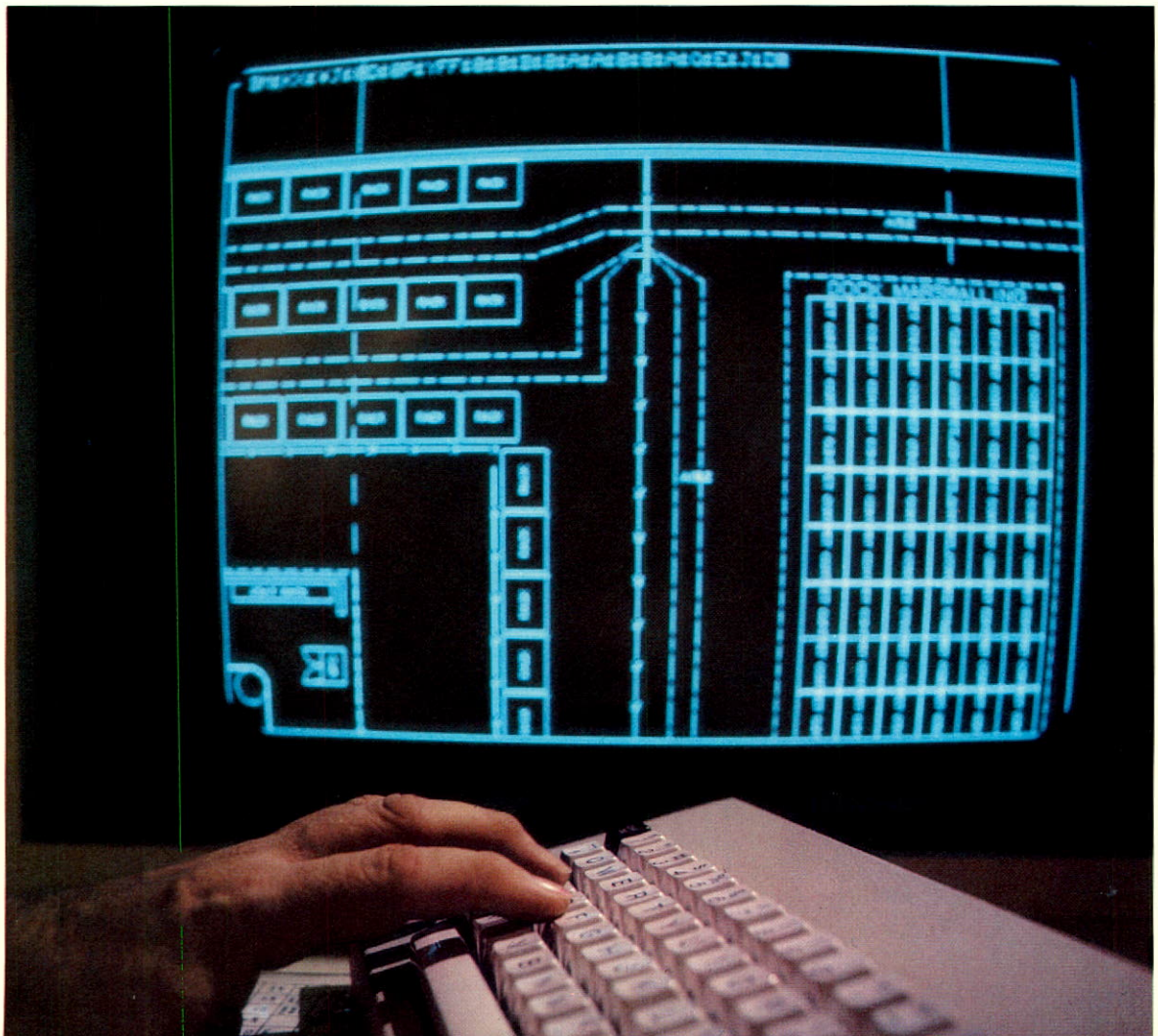
It can also show how the parts make up the whole.

Interlake's Material Handling and Storage people use CAD to design and engineer *both* the whole and the parts. From basic rack to mezzanines and decking, from cantilever rack to power/gravity/accumulating conveyors, to order picking systems... Interlake supplies it all. Plus fully automated, computer controlled systems to store and retrieve product. From shelving to software, this Interlake storage/handling technology can give you a clear picture of your next project.

So before you turn the first shovel of dirt, turn on our CAD technology. You'll like what you see.

interlake, inc.
Finding Answers in Productive Technology.
2015 Spring Road, Oak Brook, IL 60521

We can "see" a 1.5 million sq. ft. warehousing complex before we ever turn the first shovel of dirt.



Automation also led to the division's newest conveyor system: the patented Kinetic Retention conveyor, introduced by A. J. Bayer this year. Designed for compatibility with computerized, high-speed sorting systems using bar code laser scanners, the KR conveyor represents technology with immediate benefits for customers.

Computer aided manufacturing techniques are bringing new capabilities to each of Interlake's metals companies. Arwood is increasing the application of robotics and microprocessors in the die casting and investment casting processes. Globe is currently developing its own computer-controlled process for smelting silicon metal. The Iron and Steel Division uses computer controls in the melting process in the basic oxygen furnaces. And Hoeganaes now has a program for analyzing all the variables in the powder atomizing process–to control freezing rates, sizes, impurities, and eventually, the properties of the powders produced.

R&D Helps Squeeze the BTUs

Ever find a multi-million dollar energy bill in *your* mailbox?

Interlake finds one every year, making conservation an enormous challenge–and a primary field of technical research at every division. Interlake companies are finding answers–and squeezing BTUs out of operations.

Frank K. Armour, Vice President, Engineering and Research.

The Iron and Steel Division, which accounts for over half of Interlake's domestic energy usage, invested the largest single amount. Recently, the Company advanced its energy program one step further with the installation of sophisticated instrumentation for its Chicago boiler house operation.

These new controls maximize the use of blast furnace gas, minimize the consumption of fuel oil and reduce our need for coke oven gas–thereby making more

Brian W. H. Marsden, President, Iron and Steel Division.

of this valuable by-product available for sale to other companies. By speeding up the reaction time to changing demands for purchased fuels (fuel oil and natural gas) and steam energy, this control system reduces the number of purchased BTUs needed to produce a pound of steam.

Additional energy savings came from modifications to the #4 hot strip mill reheating furnace in Riverdale. To improve combustion, the slope of the furnace roof was "reprofiled". And to reduce heat loss through conduction, the furnace walls were outfitted with a special ceramic fiber insulation. Interlake is using this new refractory material in a slab reheat furnace. Together, these improvements resulted in nearly a 12% reduction in energy consumption.

Over the last few years, Globe Metallurgical took a different approach. Consuming up to 800,000 gallons of fuel oil annually, they switched to more cost-effective natural gas in 1981. Then, to supplement gas utility supplies, Globe drilled its own gas wells on its property–investing $600,000 to find reserves one mile down. The assurance of a guaranteed supply–plus the low cost of our own gas–should show cost savings measured in millions of dollars before these wells are exhausted.

Globe also conserves materials by screening silica fumes at its Selma, Alabama, plant. Particulate furnace emissions are removed through a baghouse: an environmental control device that

Natural gas well being drilled at Globe Metallurgical Division's Beverly, OH, plant.

works like a mammoth vacuum cleaner. The product then has value and usefulness: Globe sells the smoke particles to refractory and specialty ceramic producers after processing and packaging.

Finding Answers In Metals and Materials Handling

Constant improvement and change: each new capability helps Interlake to meet changing demands, to expand markets, to open new ones–and to advance its position of leadership. This year's R&D investments will bring rewards next year, five years, ten years from now; the commitment continues.

Frederick C. Langenberg, President and Chief Operating Officer, explains our commitment to accelerated R&D very simply: "Strength perpetuates itself." Clearly, finding answers is a growing strength.

Ready For The Upswing

Each construction project, acquisition and equipment installation in 1981 added another perspective to Interlake's capabilities. The total picture? Planned growth in several directions.

Reynold C. MacDonald, Chairman and Chief Executive Officer, puts it this way: "We are well along on a deliberate, well conceived plan." And he adds, "You'll see that plan reflected in the future–through acquisitions and capital expenditures."

If 1981 is any indication, that future should be bright indeed.

The Lab That Hoeganaes Built

It was more than simply a groundbreaking. For Hoeganaes R&D people and the entire P/M industry, that first shovel of dirt in Riverton, New Jersey, opened a new chapter in the constant exploration of powder metallurgy's potential.

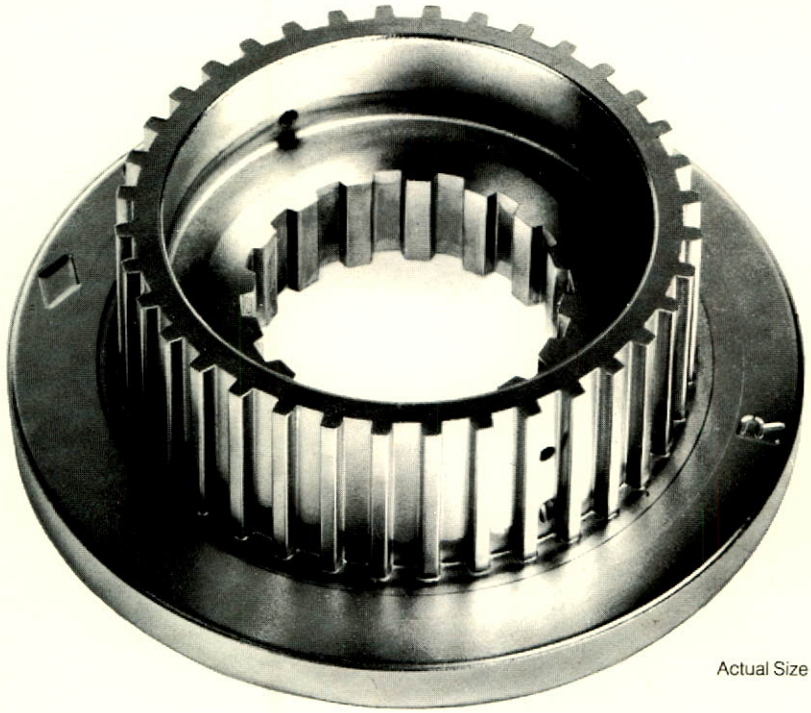
Our two-story laboratory will more than double Hoeganaes' research and development facilities and provide ideal work space and state-of-the-art equipment for metal powder and process development. We know the $4 million investment is a sound move because new products and applications mean new and expanded markets.

High on our list of promising explorations now underway: development and testing of experimental powder formulations and atomizing techniques at the lab's pilot melting and atomizing plant. From this research will come new capabilities for producing specialized, tailor-made metal powders. Other projects include powder forging improvements, innovative forming techniques, new alloys and powders for magnetic and electrical applications.

President Ian A. White predicted, "With our R&D addition, Hoeganaes can broaden efforts to find powders and processes that will keep powder metallurgy at the leading edge of metal working technology." (And, he might add, sharpen Hoeganaes' competitive edge in an exceptional growth market.)

New Hoeganaes research and development laboratory at Riverton, NJ.

Powder metallurgy clutch gear saves 60% over 3-piece forged design.



Actual Size

The part: Inner clutch gear used in a Dana Corporation clutch hub for power takeoff.

The powder: Hoeganaes Ancorsteel® 1000B, high compressibility atomized steel powder with 2% nickel added for strengthening, hardenability and wear.

The solution: 1 powder metallurgy part instead of 2 forged parts and a snap ring; reduced labor costs; elimination of machining steps including broaching and hobbing. Parts are pressed to a minimum density of 6.8 g/cm³, then sintered. Only 2 finishing steps: drilling lubrication holes and heat treating.

The fabricator: RB&W Powder Metal Products, Coldwater, Michigan—one of nearly 100 custom fabricators throughout the U.S. ready and qualified to serve you.

A powder metallurgy (P/M) design offers you a unique combination of benefits: precise control of materials and properties; controlled mass/weight density; *and economy.*

To gain maximum benefits from powder metallurgy, you need the right powder. That's where Hoeganaes can help with the broadest line of powder metallurgy materials in the industry.

HOEGANAES CORPORATION
Subsidiary Interlake, Inc.
Riverton, NJ 08077
(609) 829-2220.

HOEGANAES

The P/M Pros

Directors

Three of Interlake's executive officers are also directors of the Corporation. Reynold C. MacDonald is chairman of the board of directors and Interlake's chief executive officer. He is also chairman of the Board's executive and nominating committees.

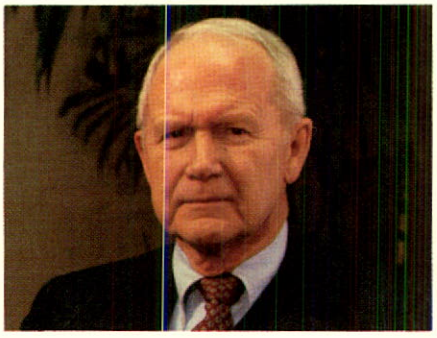
Frederick C. Langenberg, Interlake's president and chief operating officer, is a member of the Board's executive committee.

Robert Jacobs is a director and Interlake's executive vice president - finance and planning.

Outside Directors Bring Diverse Talents to Board

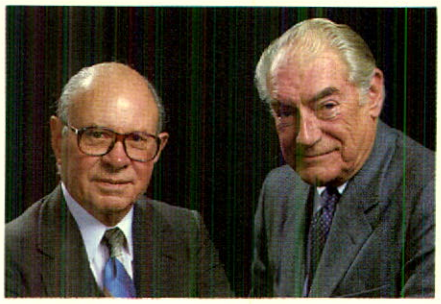
MR. BENSON

Keith S. Benson has served on Interlake's Board since 1966. He is a director and former executive vice president-administration and finance of Oglebay Norton Company, a firm which mines, sells and transports iron ore, coal and other minerals. Mr. Benson is a member of the Board's audit review and compensation committees.



MR. PUTZE

Louis Putze has served on Interlake's Board since 1962 and is chairman of the pension review committee and a member of the nominating committee. He is a consultant to Rockwell International Corporation, a manufacturer of products for the automotive, electronics and aerospace industries.



MR. SHAW MR. BERG

Lee C. Shaw, a partner in the law firm of Seyfarth, Shaw, Fairweather and Geraldson, has been a director of Interlake since 1949. He is chairman of the compensation committee and a member of the executive and pension review committees.

Eugene P. Berg is chairman of the board of Automatic Spring Coiling Co., a manufacturer of precision mechanical springs. He was previously chairman of Bucyrus-Erie Company. Mr. Berg is a member of the executive committee, the compensation committee and the pension review committee. He joined Interlake's Board in 1964.

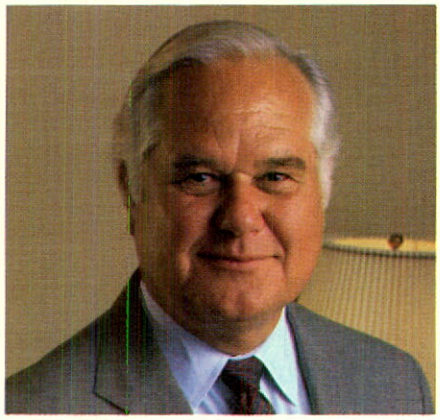
MR. SPRING

Herbert A. Spring, Jr., an Interlake director since 1977, is an attorney in private practice in Cleveland, Ohio. He is a member of the nominating committee and the audit review committee.

MR. GUENDEL MR. SCHULZE

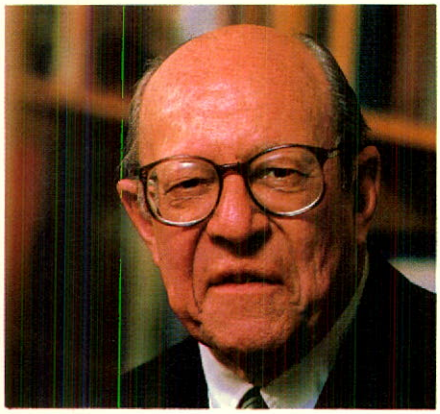
Thomas J. Guendel is chairman of the board and chief executive officer of Portec, Inc., a firm that produces engineered products for the railroad industry, construction equipment and industrial products. Mr. Guendel joined Interlake's Board in 1981. He is a member of the compensation and audit review committees.

Erwin E. Schulze is president and chief operating officer of The Ceco Corporation, a building products manufacturer and supplier of concrete forming services. Mr. Schulze joined Interlake's Board in 1981 and is a member of the compensation and pension review committees.



MR. WILLIAMS

Edward J. Williams is chairman of the board, president and chief executive officer of McGraw-Edison Company, a manufacturer and supplier of electrical and mechanical products. Mr. Williams is chairman of the audit review committee, and a member of the nominating and executive committees. He joined Interlake's Board in 1964.



MR. WRIGHT

Morris H. Wright, an Interlake Board member since 1963, is an advisory director of the investment banking firm of Lehman Brothers Kuhn Loeb Incorporated. Mr. Wright is a member of the audit review committee and the nominating committee.

Financial Report

1981 – A Very Good Year

In most ways 1981 was an excellent year for Interlake. Earnings were at record levels and sales topped the billion dollar mark for the third year in a row. Overall financial strength continued to improve.

Net sales were $1,017,000,000 and net income was $46,577,000, equivalent to $7.59 per share of common stock.

The year started on an optimistic note. The recovery from the brief, yet intense general recession of 1980 seemed to give economic strength to the first quarter of 1981. Still, everything never quite came together. The residential construction and automotive industries failed to show improvement and the prolonged recessions in these industries placed increasing strain on the rest of the economy. The result was a state of economic "sputter and spurt" which struck severely at some business areas, but offered opportunities in others. By the fourth quarter of 1981, a new recession was underway in the United States.

International economies were also under adverse pressure, especially in Europe.

Sales

Interlake's 1981 sales of $1,017,000,000 were approximately 4% below 1980 sales of $1,056,000,000. This decline can be attributed to loss of sales from plant operations which were discontinued in 1980 and to strengthening of the U.S. dollar which reduced the translated value of sales from foreign operations. Elsewhere, inflation inspired price increases helped buoy sales against real volume declines in some product areas.

Despite the loss of sales from discontinued plants, the iron and steel products group posted a 6% sales increase over 1980. New sales records were reported for Hoeganaes' metal powders and Globe's silicon metal/ferroalloys. Sales improved from 1980 for Acme's packaging products, but fell short of 1979's record. Material Handling and Storage Products' sales were off nearly 21% due in large part to strengthening of the dollar, but also due to poor market conditions. Arwood's investment/die castings sales declined approximately 5% as a result of sluggish domestic industrial activity, especially in the aerospace industry.

Net Income

Earnings showed substantial improvement from 1980. A rebound was to be expected due to the shutdown/disposal provision of $37,000,000 before taxes that was charged against 1980's results. Still, 1981's net income of $46,577,000 reflected an improvement which went beyond this expectation and exceeded the previous record of $39,735,000 established in 1979. Net income per share reached $7.59 in 1981 compared with 1980's earnings, before the shutdown/disposal provision, of $6.39 per share and net income per share of $2.29.

Earnings improvements in the iron and steel businesses, especially at the Chicago operation, played a large part in the overall income gain. Additional gains were reported by metal powders, silicon metal/ferroalloys, and packaging. Material Handling and Storage Products and Arwood's investment/die castings business showed earnings declines from 1980.

Financial Information

The following pages of this report include a review of the Company's business segments and important financial developments; financial statements; explanatory notes to the financial statements; and other supplementary information. The goal in presenting this material is to give the reader sufficient financial information to understand the Company's operations and financial condition. Sometimes this is more information than the casual reader really wants and there are occasions when mandated requirements of form and content produce technical items which may be overly complicated. With this in mind, we are including some additional commentary which we hope will make this financial report even more useful to you.

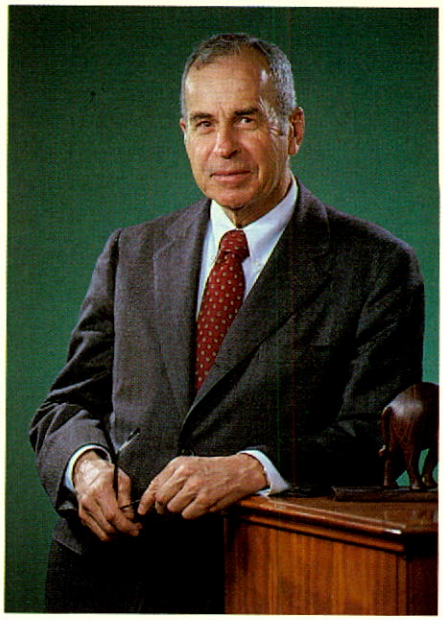
Management is responsible for the integrity of the financial information in this Annual Report and maintains a system of internal accounting controls that provides reasonable assurance as to the reliability of financial reporting and the protection of Company assets. Interlake's policy is to have a comprehensive system of internal accounting controls and organization arrangements which provides such assurance. This system includes reviews by five outside directors who constitute the Audit Review Committee of the Board of Directors and Price Waterhouse, our independent public accountants (whose report appears on page 49).

Financial Strength

As you read on, you will see that Interlake ended 1981 financially stronger than at any time in recent history and has the financial strength to support continued progress in the future.

Robert Jacobs

Executive Vice President-Finance and Planning



MR. JACOBS

Financial Developments

Billion Dollar Sales

Net sales topped the $1 billion mark for the third consecutive year. Although not quite to last year's level, the 1981 results were achieved against fairly difficult circumstances. Firstly, the economic climate has not been good and recessionary pressures have adversely influenced sales volumes and selling prices. In addition, the 1980 shutdown of steel facilities eliminated the equivalent of $69.5 million in sales. Finally, the increasing value of the U.S. dollar reduced the equivalent value of foreign sales by about $38 million. (Specific sales effects are discussed in the review of business segments.)

Record Earnings

Earnings for 1981 surpassed all previous records. While the year was not burdened with the shutdown/disposal provision that appeared in 1980, these results could not have been achieved without substantial benefits from reductions in production costs.

In many ways the results are a tribute to Interlake's diversification efforts. Packaging was the only business segment to establish a new operating income record. Investment/die castings and material handling/storage products both had earnings declines. But, without beating any records, iron/steel, metal powders, and silicon metal/ferroalloys attained improvements that supported Interlake's overall gain. (Specific operating income results are discussed in the review of business segments.)

Dividend Increased

On August 27, 1981 the Board of Directors voted to increase Interlake's quarterly dividend from $.55 to $.65 per common share. This was done as a move to share the Company's earnings growth with shareholders and demonstrated confidence in Interlake's future, based on the Company's overall financial strength.

Dividends Reinvested

Interlake's dividend reinvestment plan was established in August, 1979. It offers shareholders an opportunity to reinvest their dividends in Interlake common stock at a 5% discount and without brokerage or service fees. Roughly 34% of the fourth quarter 1981 dividends were reinvested through this plan. This was a gratifying vote of confidence in the Company. (Requests for information on the Dividend Reinvestment and Voluntary Stock Purchase Plan can be obtained by writing the Corporate Secretary's Office.)

The Foreign Currency Translation Paradox

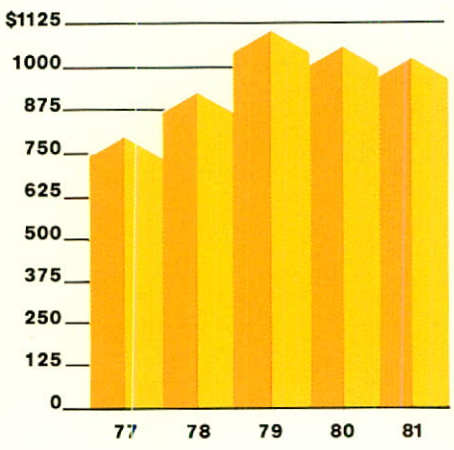
The value of the U.S. dollar rose in world money markets in 1981, a positive indicator of the economic strength of our country compared to other countries. However, there can also be negative aspects of a more valuable dollar. Three distinct and significant effects impacted Interlake in 1981.

☐ First, when 1981 sales and earnings of our foreign operations are translated into equivalent U.S. dollars, they are lower than they would have been if translated at 1980 exchange rates. Sales from foreign operations were $38.0 million lower and operating profits dropped $4.1 million because of declining foreign exchange rates.

☐ Second, a new accounting standard was used in 1981–Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." Under SFAS No. 52, balance sheet items formerly translated into U.S. dollars at historic rates are translated at current rates. Now, major items like property, plant and equipment and inventories are translated at current rates. Applying SFAS No. 52 at a time when foreign currency values were declining caused a downward adjustment in the translated dollar amount of all foreign balance sheet items at 1981 year end. The adjustment amounted to $13.0 million and was deferred in a new section of shareholders' equity according to SFAS No. 52.

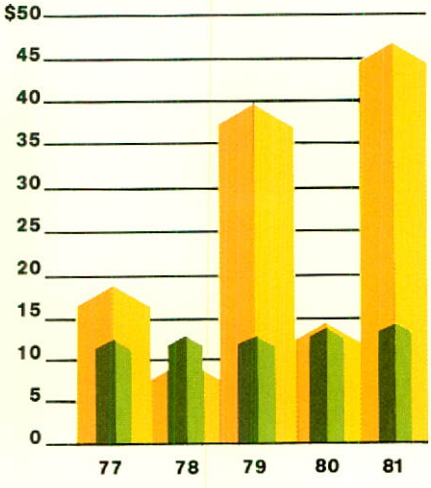
☐ Third, because of the rising value of the U.S. dollar, foreign goods cost less to buy in 1981. Imports were more price competitive against U.S. produced goods and affected several of Interlake's domestic markets, most notably steel and ferroalloys. Again the paradox–a strengthening U.S. dollar limited demand for and the price of certain Interlake products.

Interlake sales again passed the billion dollar mark...



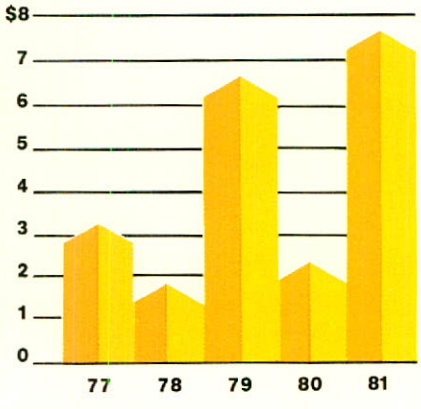
Net Sales (in millions)

...generating $46.6 million in net income and supporting a dividend increase...



Net Income and
Common Dividends (in millions)

...while earnings per share reached an historical record of $7.59.



Earnings Per Share

Review of Business Segments

The Total is The Sum of The Parts

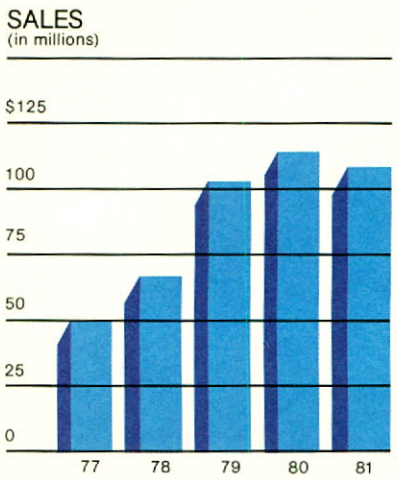
Interlake has followed a policy of diversification within two key business areas: metals and materials handling. The domestically-based metals business consists of Iron/Steel; Metal Powders; Investment/Die Castings; and Silicon Metal/Ferroalloys. The materials handling business functions worldwide through Material Handling/Storage Products and Packaging.

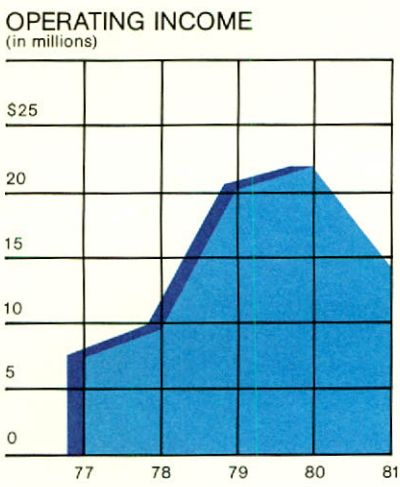
Each of these six business segments is distinct. Each has its own particular products, markets, and production processes. Furthermore, each faces demand level, pricing, and cost situations which can vary significantly.

The following review highlights the varying factors within each business segment in recent years so that the reader can gain a fuller appreciation of Interlake's overall operating results.

Investment/Die Castings Slip

Arwood was unable to match last year's record performances and suffered its first downturn since its acquisition in 1976.





This slippage was caused principally by slowdowns in the aerospace industry, which adversely affected investment castings, and by weakened overall economic conditions which acted as a damper to die castings' consumer-oriented products.

Arwood's net sales fell by 5% from 1980, but were still 6% over 1979.

Slowdowns in both the commercial and military aviation sectors became pronounced in 1981 and had a severe effect on investment castings' volume. This was somewhat offset by the acquisition of ACC Castings Company in May and Duradyne Technologies in July. Still, investment castings' net sales declined 5% from 1980, although remaining 15% ahead of 1979.

The die castings business is oriented toward the consumer products markets which were recession hit in 1981 and 1980. As a result, die castings showed a second consecutive year of reduced sales as 1981 sales fell 6% behind 1980 and 10% behind 1979. Only the Garland, Texas plant ran counter to this trend by showing sales gains in 1980 and 1981.

Prior to 1981, steady sales growth and the efficiencies of higher volumes had boosted Arwood's operating income to a string of records. The process was thrown into reverse in 1981–with market resistance to higher selling prices and loss of volume efficiencies. The resulting squeeze on Arwood's earnings reduced operating income from 1979-1980 levels, but this business still posted its third best year.

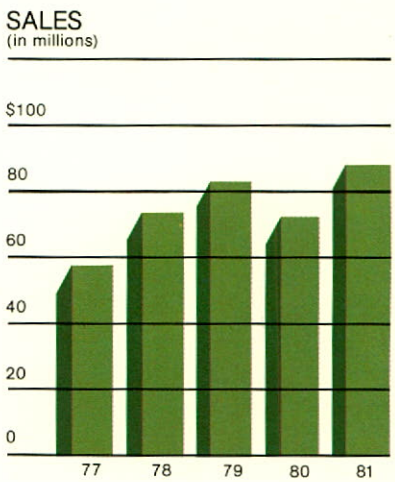
Metal Powders More Evolution

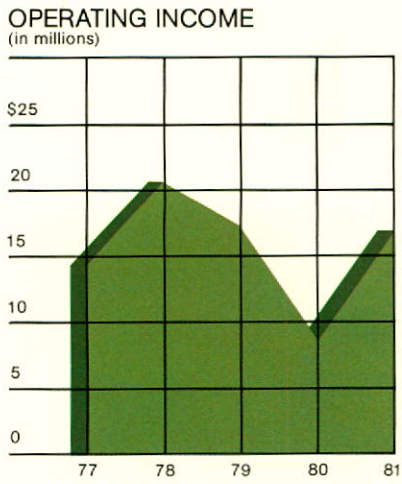
Hoeganaes Corporation's metal powders business has grown on the strength of developing new applications for powder metallurgy. This has led to increasing use within the U.S. automotive industry–as measured by pounds per car manufactured–and a gradual spreading to other industries. In order to support this growth, a $31 million atomized steel powder plant was completed in 1979 at Gallatin, Tennessee and a $4 million expansion of Riverton, New Jersey research and development facilities was undertaken in 1981.

Metal powders enjoyed surging demand in 1978 and 1979. Shipments were far in excess of existing capacity–1978 volume being sustained by elimination of inventory reserves and 1979 supported by imports from Hoeganaes' original Swedish parent company.

The critical slump in the domestic automotive industry had an adverse impact on 1980 and a lingering effect throughout 1981.

The cumulative effect of higher selling prices allowed 1981 sales to surpass the previous record of 1979 by 5%–an improvement of 24% over 1980. Shipment volume, however, trailed 1979 and 1978 by 12%. Still, considering the state of the automotive industry, 1981's volume was very satisfying. It reflected further development of new applications and was sustained by significantly greater utilization of the Gallatin plant. Production levels in 1981 were nearly equivalent to the 1978-1979 period.





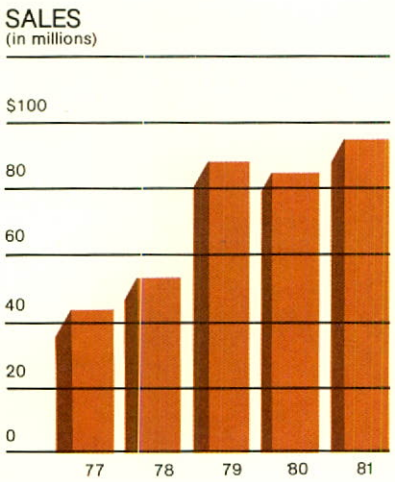
Hoeganaes' operating income peaked in 1978. There was a 17% earnings drop in 1979 due to higher labor and materials costs, start-up expenses at Gallatin, and the unfavorable effect of importing powders to satisfy customer demands. This was followed by a 48% operating income decline in 1980 as shipping and production volumes fell sharply. The earnings recovery of 1981 came within 3% of the 1979 level with inferior market conditions and lower volumes. This was, in part, caused by the favorable effect of Gallatin operating efficiencies.

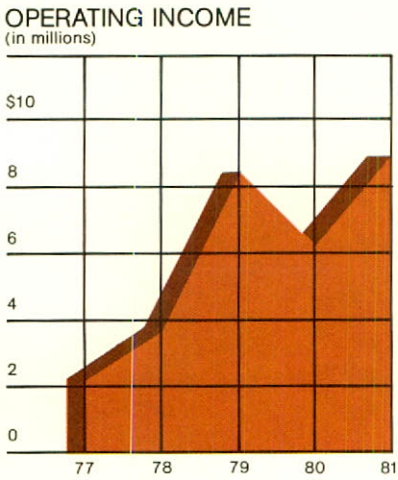
Review of Business Segments

Silicon Metal/Ferroalloys Hangs Tough

It's hard enough to put together a sales record, it's particularly tough in a poor economic environment, and almost impossible in a poor year that follows a poor year. Nevertheless, the silicon metal/ferroalloys business extended itself to a new sales high by gaining 13% over 1980 to top the old record of 1979 by 8%.

Silicon metal is sold primarily to the aluminum and chemical markets. The aluminum market continued to be hard hit by the depressed conditions in the automotive industry while the chemical market sustained favorable demand conditions. Competitive pressures intensified during the year, but shipping volume increased by 12%–almost reaching 1979 levels.





Ferroalloys consist mainly of ferrosilicon, magnesium ferrosilicon, and ferrochromes. All of these products are under some pressure from low-priced imports. This pressure has been most severe among ferrochromes and the number of domestic producers has been steadily shrinking. Low carbon ferrochrome shipments declined 29% in 1981–following a 21% decline in 1980. However, high carbon ferrochrome volume was up a marked 76% as some major users recognized the need to maintain domestic sources of supply.

Recent ferroalloys growth has come mainly from the 1977 introduction of magnesium ferrosilicon products and Globe's 1978 re-entry into the ferrosilicon market. Magnesium ferrosilicon sales volume increased by 44% in 1981, while ferrosilicon stayed within 1% of 1980 levels. Both products showed relatively stable volumes in 1980 versus 1979.

Operating income advanced to its highest level since the 1974 record year. To some extent the upward thrust came from higher sales volume, just as lower sales volume drove 1980 earnings downward. However, most of the year-to-year income gain came from efficiency and productivity improvement efforts.

Iron/Steel Rebounds

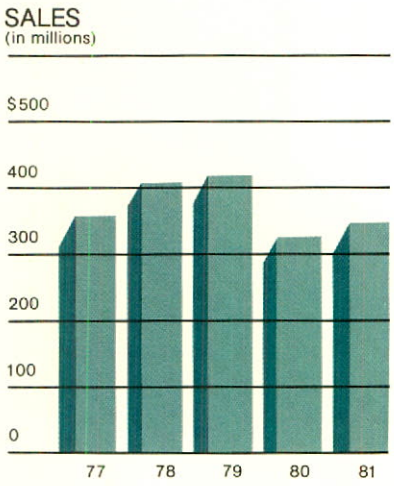
The iron and steel industry has faced turbulent conditions over the last several years and has been especially hard hit during the 1979-1981 period. Import pressures, deteriorating cost/price relationships, and massive capital investment requirements have raised questions as to the continuing survival of some companies.

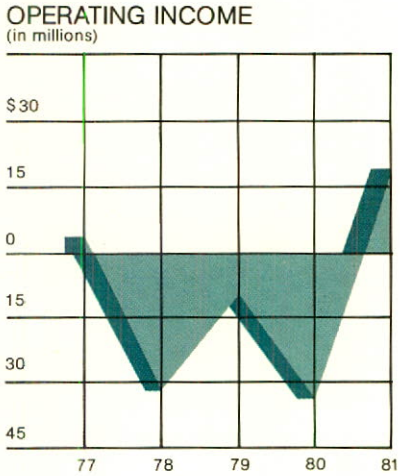
Interlake's iron and steel business has also been severely tested during these years. In 1978, the Toledo, Ohio pig iron operation was closed as a result of declining sales due to a depressed market that was increasingly dominated by low-priced imported iron. In 1980, the Newport/Wilder steel plants were shut down. This followed a $16 million capital spending effort aimed at restoring profitability to these operations and was necessitated by the local union's rejection of a one year containment of labor costs. During the last five years, over $60 million has been invested at the Chicago plant to rehabilitate its facilities and restore a profitable operating base.

Iron and steel sales comparisons are muddied by the loss of volume from discontinued operations. On the surface sales fell by $97 million or 23% in 1980 and advanced a modest $19 million or 6% in 1981. However, sales of the continuing Chicago and Riverdale locations only declined by $36 million or 13% in 1980 and rebounded in 1981 with increases of $95 million or 38%.

Shipping volume from on-going locations fell by 15% in 1980, but picked up by 35% in 1981. The 1981 advance was especially pronounced at the Chicago iron plant where tonnage gains of 74% followed an 8% decline in 1980. A substantial portion of this gain resulted from spot sales to another steel company. This increase in plant volume had a significant favorable effect on unit production costs. The Riverdale steel operation recorded a 1981 tonnage increase of 13%, but remained 9% below 1979 shipping levels.

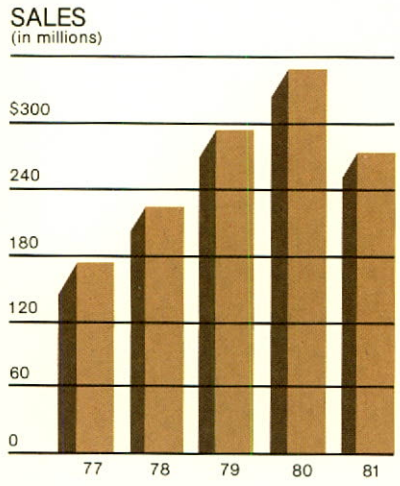
Iron and steel reported a profit for the first time since 1977 on the strength of improved operating levels at Chicago and Interlake's affiliated ore mining companies. This business segment's recent history has been burdened by pre-tax shutdown/disposal provisions of $37.0 million in 1980 and $15.7 million in 1978. Results in 1978 were depressed further by severe winter weather, an extended United Mine Workers' strike, and costs associated with major facility rehabilitation programs. The rehabilitation costs continued in 1979, but related benefits started to take hold that year and have grown in subsequent years. In 1980, productivity and efficiency gains were stressed and earnings were favorably influenced by the liquidation of LIFO inventories, but this progress was restricted by volume declines and inadequate selling price increases.

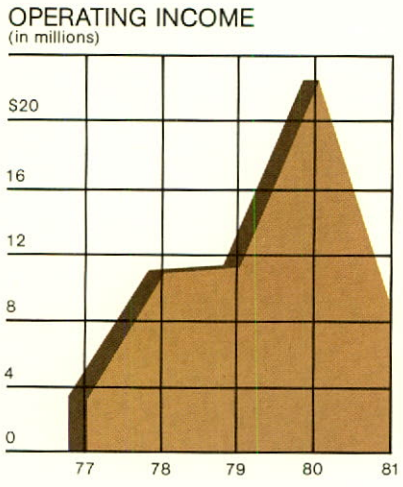




Material Handling/Storage Products Recession Plagued

The material handling/storage products business is highly dependent on our customers' capital expenditures for new facilities or upgrading old facilities. Unfortunately, the nearly worldwide recession in capital expenditure projects which began in 1980 lingered through 1981.





Truly international, the material handling/storage products business derived 72% of 1981 sales from outside the United States. The high value of the U.S. dollar had a significantly unfavorable impact on these sales. Over 80% of the decline in foreign operation sales was attributable to the strengthening of the U.S. dollar versus other currencies, especially the British pound. Ignoring currency swings, 1981 foreign sales trailed 1980 by 4% but were 9% ahead of 1979.

The European recession has been widespread and unremitting and while aggressive marketing was able to gain some headway in 1980, it could not stem the downward pressures of 1981. The only exception to this was France where a 6% French franc sales gain was achieved.

Australian and Canadian operations were able to continue their forward thrusts and each achieved a new sales record in 1981. Australian sales improved 29% from 1980 and were roughly 56% over 1979. Canadian sales beat 1980 by 5% and were 32% ahead of 1979.

Domestic sales suffered from recession induced reductions in capital spending in this country. Sales were off by 29% from 1980 and trailed 1979 by 16%. U.S. sales were boosted in 1980 by work on a major warehouse distribution center. This one million square foot center is the largest single systems order ever received by Interlake, but the major portion of this job was completed before 1981 and no similar projects were booked in 1981. The swing on this job alone accounted for 83% of the domestic sales decline from 1980.

The various declining economic climates pressed on sales volumes and selling prices and these factors, along with the rising value of the dollar, had a predictable influence on operating income. Material handling/storage products' earnings fell by 57% from 1980's peak and reached their lowest level since 1977. The only bright spots were Australia and England. Australia achieved record earnings, even in U.S. dollars, and England struggled for a gain in pound sterling income, but this was washed away by the declining value of the pound.

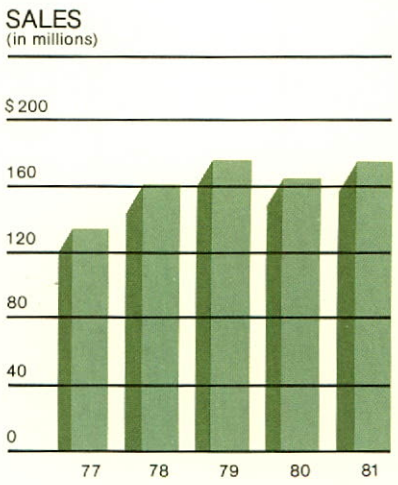
Packaging Earnings Record

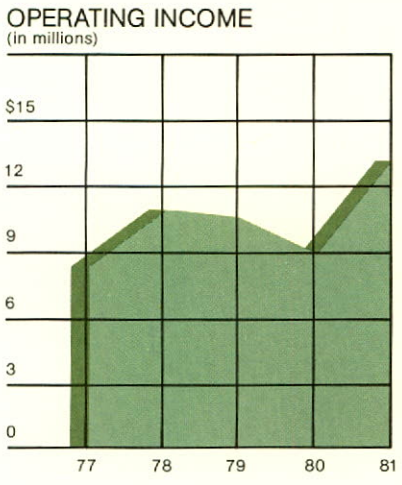
Packaging sales resumed their upward path with a 7% gain from 1980 and operating income exceeded its 1978 peak by 19%.

Packaging products are used in nearly all industrial areas and sales are particularly sensitive to levels of economic activity. During 1981, sales were 7% over 1980 and came within 1.5% of 1979's record. The year-to-year sales gain was hampered by declining British pound exchange rates which left English sales with a 10% drop in dollars although they were up by 3% in pounds sterling. Canadian sales were up by 4% in U.S. dollars and 6% in Canadian dollars. Domestic sales were up 10%.

Metallic steel strapping is the major packaging product and has been hit hard by worldwide recessionary influences in the last two years. Overall metallic shipments were only 2% ahead of 1980 with domestic volume gaining 5% while Canada slipped 6% and England remained steady. This follows across-the-board volume declines in 1980 of 16% domestically, 2% in Canada, and 18% in England. Non-metallic strapping shipments have remained stable for the last two troubled years after gains of 13% in 1979 and 30% in 1978.

Operating income reversed its two-year slide as the relocated tool and machine plant in Sumter, South Carolina came on stream and operating costs at other facilities were reduced. Canadian operations continued their string of income records which began in 1978 and domestic operations bested their previous 1978 high.





Financial Statements

What to look for when reading the Income Statement

The statement of income is often referred to as the statement of profit and loss. It is a summary of revenues and related costs and expenses which indicates the profitability of the Company.

MR. POLANEK

The statement focuses on the income producing activities of the Company and, therefore, reflects the results of operations for the fiscal year and provides the reader with a basis for assessing the Company's performance.

Revenue growth is usually one of the things the reader looks for. Interlake's revenues come mainly from the net sales of its various businesses and, while sales have been over the billion dollar level for the last three years, there has been slippage in the last two. As indicated in the financial comments and notes, this slippage is the result of discontinuing certain operations in 1980 and of recent turbulent economic conditions.

Other revenues include royalties, interest income and gains on sales of property and equipment. The big jump in 1981 was due to substantially higher interest income and gains on asset sales.

Operating profitability is the reader's primary concern and attention is usually concentrated in this area. On a pre-tax basis, earnings from on-going operations were $79,119,000 in 1981, $57,553,000 in 1980 and $45,177,000 in 1979. Although 1980 included benefits of $15,400,000 from liquidation of LIFO inventories, earnings from on-going operations reflect a strong pattern in light of the recent economic climate.

There are three key statistics which analysts frequently use to measure earnings performance.

INTERLAKE, INC.
Statement of Consolidated Income and Retained Earnings

For the Years Ended December 27, 1981, December 28, 1980 and December 30, 1979

	1981	1980	1979
	(In thousands except per share statistics)		
Sales and Revenues:			
Net sales	**$1,016,605**	$1,055,883	$1,104,588
Other revenues	**16,706**	7,880	7,847
	1,033,311	1,063,763	1,112,435
Costs and Expenses:			
Cost of products sold (excluding depreciation and taxes) (Note 1)	**772,692**	815,586	888,773
Depreciation, depletion and amortization	**25,976**	26,869	25,015
Selling and administrative expenses	**111,442**	116,523	106,871
Taxes other than income taxes	**30,675**	31,485	31,645
Interest expense (Note 1)	**13,407**	15,747	14,954
	954,192	1,006,210	1,067,258
Income Before Nonrecurring Item, Taxes on Income and Minority Interest	**79,119**	57,553	45,177
Shutdown/Disposal Provision (Note 6)	**–**	37,000	–
Income Before Taxes on Income and Minority Interest	**79,119**	20,553	45,177
Provision for Income Taxes (Notes 1 and 8)	**30,953**	5,998	3,129
	48,166	14,555	42,048
Minority Interest in Net Income of Subsidiary	**1,589**	737	2,313
Net Income for the Year	**$ 46,577**	$ 13,818	$ 39,735
Net Income Per Share of Common Stock (based on average shares of 6,134,310 in 1981, 6,038,764 in 1980, and 5,967,415 in 1979)	**$7.59**	$2.29	$6.66
Retained Earnings at Beginning of Year	**$ 239,606**	$ 239,075	$ 212,467
Net Income for the Year	**46,577**	13,818	39,735
	286,183	252,893	252,202
Deduct–Cash Dividends Declared or Paid ($2.40 per share in 1981 and $2.20 per share in 1980 and 1979)	**(14,735)**	(13,287)	(13,127)
Retained Earnings at End of Year	**$ 271,448**	$ 239,606	$ 239,075

(See notes to consolidated financial statements)

These are:

- Return on Sales–net income divided by net sales.
- Return on Investment–net income before interest and minority interest, divided by average investment less interest bearing items.
- Return on Equity–net income divided by average shareholders' equity.

These statistics confirm the strength of 1981's results.

	1981	1980	1979
Return on Sales	**4.6%**	1.3%	3.6%
Return on Investment	**10.3%**	4.1%	9.8%
Return on Equity	**13.5%**	4.2%	12.7%

Richard I. Polanek
Controller

INTERLAKE, INC.
Consolidated Balance Sheet

December 27, 1981 and December 28, 1980

Assets	1981	1980
	(In thousands)	
Current Assets:		
Cash	$ 5,599	$ 5,470
Certificates of deposit	29,367	15,282
Receivables, less allowances of $2,811,000 in 1981 and $3,677,000 in 1980	146,244	169,162
Inventories (Note 1)	171,445	163,706
Other current assets	19,559	15,912
Total current assets	372,214	369,532
Investments and Other Assets:		
Investments in and advances to associated companies (Notes 1, 9 and 11)	43,960	43,793
Other assets (Note 1)	30,747	35,438
	74,707	79,231
Property, Plant and Equipment, at cost (Notes 1 and 9):		
Land and mineral properties, less depletion	10,146	11,593
Buildings	103,474	97,363
Equipment	446,158	423,592
Construction in progress	17,679	16,790
	577,457	549,338
Depreciation and amortization	(314,161)	(294,483)
	263,296	254,855
Total Assets	$710,217	$703,618
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable (Note 1)	$ 76,840	$ 59,269
Accrued liabilities	34,392	56,706
Accrued employment costs	26,036	27,838
Income taxes payable (Note 8)	14,946	15,874
Taxes other than income taxes	8,908	9,277
Debt due within one year (Note 2)	11,289	19,423
Total current liabilities	172,411	188,387
Long-Term Debt (Note 2)	126,618	133,020
Other Long-Term Liabilities:		
Noncurrent shutdown costs	10,022	12,145
Other	14,538	13,078
	24,560	25,223
Future Income Taxes (Note 1)	20,738	13,331
Minority Interest in Subsidiary	7,142	6,950
Commitments and Contingencies (Note 9)	–	–
Shareholders' Equity (Note 3):		
Common stock, par value $1 a share, authorized 20,000,000 shares, issued 6,997,642 shares in 1981 and 6,932,643 shares in 1980	115,412	112,860
Cost of common stock held in treasury (818,776 shares in 1981 and 843,493 shares in 1980) (Note 4)	(15,120)	(15,759)
Retained earnings (Note 5)	271,448	239,606
Accumulated foreign currency translation adjustments (Note 1)	(12,992)	–
	358,748	336,707
Total Liabilities and Shareholders' Equity	$710,217	$703,618

(See notes to consolidated financial statements)

Understanding the Balance Sheet–A Real Asset.

The purpose of a balance sheet is to summarize the financial position of a business on a specific date. It is a "snapshot" of how the Company stands on the last day of its fiscal year.

The asset section of the balance sheet shows the Company's assets–everything that the Company owns. This consists of property rights, physical goods, uncollected claims, and prepayments. Those items that can be converted into cash or will be consumed within a year are called current assets. The remaining assets are referred to as long-term or fixed assets, because they generally are investments intended to produce revenues and earnings and are not intended to be sold in the ordinary course of business.

The other section of the balance sheet lists the Company's liabilities and the equity investment of the shareholders–everything that the Company owes. Liabilities which will fall due within a year are called current liabilities.

MR. ANDERSON

The reader can gain insight into the financial vigor of an enterprise from its balance sheet. The primary considerations usually center around the firm's ability to pay its debts as they fall due (liquidity) and to take advantage of new opportunities (flexibility).

There are three key statistics which analysts frequently use to measure financial strength:

- Current Ratio–current assets divided by current liabilities.
- Quick Ratio–cash, cash equivalents and receivables divided by current liabilities.
- Debt to Equity Ratio–the proportion of total debt, including short-term borrowings, to shareholders' equity.

A review of these statistics demonstrates Interlake's solid financial strength:

	1981	1980	1979
Current Ratio	2.2/1	2.0/1	1.7/1
Quick Ratio	1.1/1	1.0/1	.9/1
Debt/Equity	28/72	31/69	35/65

Raymond T. Anderson, Treasurer

Making Sense of Cash Flows

The statement of changes in financial position summarizes where the Company acquired its financial resources during the fiscal year and where it applied or used these resources. It is intended to give the reader a better understanding of the financing and investing activities of the Company.

The statement is designed to emphasize changes in working capital from the viewpoint of cash entering and leaving the Company on a permanent or long-term basis. The circulation of cash through the working capital components is treated separately because current asset and current liability balances are variable and will roll over in fairly brief time periods.

The Company's primary source of funds over the last three years has been cash generated by operations. This is different from net income, because some of the income and expense items do not involve cash movements during the current year. When net income is adjusted for non-cash items, it indicates working capital provided from operations or cash income.

Financial resources can also be acquired by selling properties which are no longer needed in the business, borrowing, or raising equity capital. The disposal of discontinued operations generated substantial funds in 1981, no major borrowings have occurred since 1978, and the dividend reinvestment program has been an increasing source of capital.

The focus of generating cash inflows is to maintain and expand the Company's productive base, repay creditors, and reward investors. Interlake's capital expenditures and investment activities have been significant, and fully funded by current operations. Debt is being retired at a rate that exceeds minimum requirements and dividend payments have been increased.

Interlake has substantial capital resources to meet future financial requirements. In addition to the Company's basic earning power and long-term debt borrowing strength, Interlake's liquidity is enhanced by bank credit lines totaling $136,000,000 and only $10,179,000 was borrowed against these lines at year end 1981. This includes a domestic credit agreement for $75 million. Interlake can borrow up to the full amount during the period ending July 1, 1984 and, at its option, may convert any balance to a five-year term loan.

INTERLAKE, INC.
Statement of Changes in Consolidated Financial Position

For the Years Ended December 27, 1981, December 28, 1980 and December 30, 1979

	1981	1980*	1979*
		(In thousands)	
Financial Resources Were Provided By:			
Net income	$ 46,577	$ 13,818	$ 39,735
Depreciation, depletion and amortization	25,976	26,869	25,015
Equity in earnings of affiliates and joint ventures, less dividends received	(1,828)	1,248	(923)
Shutdown/disposal provision–non-current portion	–	25,584	–
Future income taxes	7,407	(7,509)	3,941
Other long-term liabilities	(847)	1,934	1,680
Minority interest in net income of subsidiary, less dividend paid	192	(258)	715
Working capital provided from operations	77,477	61,686	70,163
Long-term borrowings	–	1,233	2,864
Disposals of property, plant and equipment	3,568	1,341	2,133
Disposal of shutdown facilities	13,860	–	–
Decrease in construction funds held by trustees	1,237	1,305	8,016
Dividend reinvestment plan	2,173	1,896	903
Other	3,197	(307)	1,166
	101,512	67,154	85,245
Financial Resources Were Used For:			
Capital expenditures	37,393	31,276	69,556
Reduction of long-term debt	6,402	3,716	3,640
Cash dividends declared	14,735	13,287	13,127
Acquisition of businesses, net of working capital acquired	9,896	–	–
Investment in tax leases, net of amortization	4,967	–	–
Change in exchange rates	9,461	–	–
	82,854	48,279	86,323
Increase (decrease) in working capital	$ 18,658	$ 18,875	$ (1,078)
Increase (Decrease) in Working Capital Comprises:			
Cash and short-term investments	$ 14,214	$ 9,944	$ (9,897)
Receivables	(22,918)	(11,528)	33,587
Inventories	7,739	(17,659)	21,694
Other current assets	3,647	5,298	(2,689)
Accounts payable and other accrued liabilities	6,914	19,469	(27,325)
Income taxes payable	928	(8,444)	8,421
Debt due within one year	8,134	21,795	(24,869)
	18,658	18,875	(1,078)
Working capital at beginning of year	181,145	162,270	163,348
Working capital at end of year	$199,803	$181,145	$162,270

* Certain amounts have been reclassified to conform to the presentation in 1981.

(See notes to consolidated financial statements)

Notes to Consolidated Financial Statements

THE NOTES COMPLETE THE PICTURE

The financial statements present summarized and condensed information. This provides the reader with a convenient overview of recent developments and that is frequently all that the reader desires. However, the statements do not present information in depth.

The notes are used to detail information that cannot reasonably be accommodated in the body of the financial statements. They amplify and explain the material that appears in the financial statements by clarifying content, furnishing details, and providing additional information.

For example, Note 1 explains the significant accounting policies which Interlake uses to prepare its financial information. In many areas, a company must choose between alternative accounting treatments and the statement information becomes clearer when the reader knows the choices that have been made.

Another illustration appears in Note 2. This note details the long-term debt information summarized in the balance sheet and elaborates on the nature of the debt and its repayment requirements through 1986. The note also provides extra information by describing credit arrangements which make additional resources available to the Company for future use.

As you can see, the financial statements furnish the central foreground to the Company's financial picture and the notes provide the background that completes the picture.

INTERLAKE, INC.–NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 27, 1981, December 28, 1980 and December 30, 1979.

NOTE 1–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation • The consolidated financial statements include the accounts of all majority-owned domestic and foreign subsidiaries. Investments in corporate joint ventures and companies owned 20% to 50% are accounted for by the equity method. Such investments are carried at cost plus equity in undistributed earnings.

Inventories • Inventories are stated at the lower of cost or market value. Cost is determined principally by the last-in, first-out (LIFO) method, which is less than current costs by $124,800,000 and $111,028,000, at December 27, 1981 and December 28, 1980, respectively.

Effective with the beginning of fiscal 1981, the Company extended the use of the LIFO method of accounting for the principal inventories of its foreign subsidiaries which previously used the FIFO (first-in, first-out) method. Management believes that the LIFO method provides a better matching of current costs with current revenues. The effect of the extension of LIFO for foreign inventories was to reduce net income $1.0 million or $.16 per share. There was no cumulative effect of this change on prior years' reported earnings.

During 1980, inventory quantities were reduced, resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1980 production. As a result, income before taxes was increased by $23,200,000, equivalent to $2.08 per share after applicable income taxes, of which $15,400,000, equivalent to $1.38 per share after applicable income taxes, was reflected in cost of products sold and the balance was included as a reduction of the 1980 shutdown/disposal provision (see Note 6).

December 27, 1981 and December 28, 1980 inventory amounts by category were:	**December 27, 1981**	December 28, 1980
Raw materials	**$ 58,976,000**	$ 56,644,000
Semi-finished and finished products	**88,502,000**	82,478,000
Supplies	**23,967,000**	24,584,000
	$171,445,000	$163,706,000

In 1981, 1980 and 1979 the Company made raw material purchases of $76,106,000, $57,631,000 and $51,025,000, respectively, from affiliated iron ore and coal mining interests. Included in accounts payable are amounts due affiliated companies for raw material purchases of $20,005,000, $10,755,000 and $13,169,000 at December 27, 1981, December 28, 1980 and December 30, 1979, respectively.

Property, Plant and Equipment and Depreciation • For financial reporting purposes, plant and equipment are depreciated principally on a straight-line method over the estimated useful lives of the assets. Depreciation claimed for income tax purposes is computed by use of accelerated methods. Income taxes applicable to differences between depreciation claimed for tax purposes and that reported in the financial statements are charged or credited to future income taxes, as appropriate. Provisions for depletion of mineral properties are based on tonnage rates which are expected to amortize the cost of such properties over the estimated amount of mineral deposits to be removed.

Upon sale or disposal of property, plant and equipment, it is the Company's policy to relieve the respective asset accounts of cost and, in the case of normal sales or disposals, to charge such original cost to accumulated depreciation and amortization, thereby not recognizing any gain or loss. Any proceeds from these sales or disposals are credited to accumulated depreciation and amortization. On an abnormal sale or disposal of property, plant and equipment, the original cost and the amount of depreciation actually credited to accumulated depreciation and amortization are removed from the accounts and any gain or loss on the disposal is credited or charged to income.

Notes to Consolidated Financial Statements

Expenditures for maintenance and repairs and minor renewals and betterments are charged to expense as incurred. Furnace relines and expenditures for renewals and betterments of a character calculated to extend the originally estimated useful life of any asset or materially increase its productivity are capitalized.

Goodwill • Other assets includes goodwill of $13,947,000 and $8,095,000 at December 27, 1981 and December 28, 1980, respectively Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is being amortized on a straight-line method over a period of approximately thirty years.

Foreign Currency Translation • In the fourth quarter of 1981 the Company adopted, retroactive to the beginning of the year, Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." This Statement provides that adjustments for currency exchange rate changes are included in net income for those fluctuations that impact cash flows and are excluded for those that do not. Translation gains and losses are deferred in a separate component of shareholders' equity entitled "Accumulated foreign currency translation adjustments." Activity in this account during 1981 was as follows:

Opening balance	$ 2,583,000
Adjustments from translating foreign currency financial statements at current rates	(15,575,000)
Balance at December 27, 1981	$(12,992,000)

The opening balance represents the effect of translating certain assets and liabilities at December 28, 1980 (previously translated at historical exchange rates) at the exchange rates in effect at that date.

Adoption of this Statement had a minimal effect on 1981 net income. 1980 and 1979 net income included a net gain of $1.4 million or $.24 per share, and a net loss of $.7 million or $.12 per share, respectively, for foreign currency translation and hedging costs.

Investment Tax Credits • The full amount of investment tax credits claimed for tax purposes is reflected in income in the year in which the credits first become available.

Purchased Tax Benefits • In the fourth quarter of 1981, the Company entered into several agreements to purchase tax benefits through tax leases. The purchase price, which has been included in "other assets," is being amortized to income at a constant rate of return over the period benefited and resulted in a gain of $679,000 included in 1981 net income. The current liability for income taxes payable at December 27, 1981 has been reduced by $7,358,000 for such tax benefits to be reflected in the Company's 1981 U.S. Federal income tax return.

Pension Plans • The Company has various pension plans which cover substantially all employees. The provision for pension costs includes current costs plus interest on and amortization of unfunded prior service costs over periods not exceeding twenty-five years. The Company's policy is to fund pension costs accrued.

Interest Costs • In 1980, the Company adopted Statement of Financial Accounting Standards No. 34, "Capitalization of Interest Costs," which requires capitalization of interest costs as part of the historical cost of acquiring certain assets. Interest costs capitalized in 1981 and 1980 were immaterial.

NOTE 2–LONG-TERM DEBT AND CREDIT ARRANGEMENTS

Long-term debt of the Company consists of the following:

	December 27, 1981	December 28, 1980
	(In thousands)	
8.8% Debentures, due annually $2,500,000 1982 to 1995, and $5,000,000 in 1996	**$ 34,997**	$ 39,928
8-1/2% Senior Notes, due annually $3,000,000 1984 through 1998	**45,000**	45,000
Obligations under long-term lease agreements	**16,150**	16,650
11-1/4% Notes payable, due annually in varying installments from 1982 to 1998	**9,711**	9,909
Pollution control and industrial development loan agreements	**18,350**	18,350
Other	**3,520**	4,275
	127,728	134,112
Less– current maturities	**1,110**	1,092
	$126,618	$133,020

At December 27, 1981, 8.8% debentures with a face value of $5,003,000 were held in the treasury by the Company. $2,500,000 of these may be used in meeting the 1982 sinking fund requirement and have been applied as a reduction of debt due within one year.

The long-term lease obligations relate principally to capitalized pollution control facilities. The interest rates on these obligations vary from 6.00% to 7.88%. Principal payments began in 1981 and continue in varying annual amounts through 2002.

The Company borrowed funds under several loan agreements with state and county pollution control and industrial development authorities to finance certain environmental control and facility expansion and improvement projects. Interest rates on these obligations vary from 6% to 7-1/8% with the exception of a $1,000,000 loan at 65% of the prime rate. Principal payments of

$1,000,000, $1,700,000 and $3,500,000 are to be made in 1983, 1988 and 1993, respectively, then continue in varying amounts from 1998 to 2009.

The combined aggregate maturities and sinking fund requirements for long-term debt for the five years following 1981, after giving effect to debentures held by the Company and available for sinking fund requirements, are as follows:

1982	$1,110,000
1983	2,135,000
1984	6,499,000
1985	6,577,000
1986	6,815,000

The Company maintains formal and informal domestic and foreign short-term bank credit lines of $136,000,000 against which $10,179,000 was borrowed at December 27, 1981. Domestic borrowings bear interest at the prime rate. Foreign borrowings bear interest at varying rates which are generally the overseas equivalent of the prime rate. In connection with the domestic lines of credit, the Company has entered into informal arrangements to maintain average compensating balances of 5% for the unused portion of the informal lines and 5% for any borrowings under the formal lines.

NOTE 3–CAPITAL STOCK

The Company's authorized capital stock includes 2,000,000 shares of serial preferred stock at $1 par value per share, none of which has been issued.

The Company's 1979 Dividend Reinvestment and Voluntary Stock Purchase Plan allows shareholders to purchase shares of the Company's common stock at 95% of market for dividend reinvestments and at market for voluntary cash payments, subject to certain limitations. Shares issued in connection with the Plan totaled 64,999 shares or $2,173,000 in 1981, 76,590 shares or $1,896,000 in 1980 and 36,543 shares or $903,000 in 1979.

NOTE 4–STOCK INCENTIVE PLANS

The Company's 1975 stock option plan (as amended and restated in 1981) provides for the granting of options for the purchase of common stock to officers and other key employees at prices equal to the fair market value at the dates of grant. A maximum of 650,000 shares may be granted under the Plan until December 31, 1984. Options become exercisable one third annually, on a cumulative basis, starting one year from the date of grant and may be exercised until ten years have elapsed from the date of grant. The 1981 amendment and restatement of the plan, besides permitting the granting of options to purchase 275,000 additional shares, included in the above maximum, also provided that options may be exercised by the transfer to the Company of shares of Company common stock having a value equal to the total option price.

The Company's 1977 Stock Incentive Program consists of a Stock Appreciation Rights Plan under which a maximum of 300,000 shares of common stock may be issued, a Stock Awards Plan and a Restricted Stock Purchase Plan. Total shares issued for the latter two plans may not exceed 100,000. Stock Appreciation Rights (S.A.R.s) are issued concurrently with specific stock option grants and entitle the holders to receive the difference between option price and market price at the time of exercise of the S.A.R.s in cash, shares of common stock, or a combination of the two at the Company's discretion. An equivalent number of shares under option are surrendered upon exercise of S.A.R.s. Under the Stock Awards Plan, shares of common stock are issued at the date of the award and delivered to recipients 20% immediately and 20% on each of the four succeeding anniversary dates, subject to certain restrictions. The Board of Directors has not adopted a Restricted Stock Purchase Plan.

Notes to Consolidated Financial Statements

Changes in common shares under option and related S.A.R.s for the three years are summarized as follows:

	1981		1980		1979	
	Option Shares	**Average Option Price**	Option Shares	Average Option Price	Option Shares	Average Option Price
Stock Options:						
Outstanding–beginning of year	**263,814**	**$28.93**	247,198	$29.99	200,249	$30.77
Granted	**47,650**	**40.25**	78,500	25.94	70,000	26.29
Exercised	**(5,062)**	**25.09**	(4,723)	23.75	(5,400)	18.43
Surrendered for exercised S.A.R.s	**(8,214)**	**26.89**	(9,874)	24.19	(5,150)	22.35
Canceled or expired	**(14,851)**	**29.39**	(47,287)	31.03	(12,501)	29.86
Outstanding–end of year	**283,337**	**30.94**	263,814	28.93	247,198	29.99
Exercisable–end of year	**173,689**	**30.17**	140,093	31.51	128,730	33.03
Available for grant	**313,540**		71,339		102,552	
Stock Appreciation Rights:						
Outstanding–beginning of year	**139,941**		136,932		109,250	
Granted	**28,650**	**40.25**	38,250	25.94	35,650	26.21
Exercised	**(8,214)**		(9,874)		(5,150)	
Canceled or expired	**(1,100)**		(25,367)		(2,818)	
Outstanding–end of year	**159,277**		139,941		136,932	

Treasury shares issued for exercised stock appreciation rights totaled 1,055 in 1981, 794 in 1980 and 405 in 1979. The Stock Awards Plan, activated in 1978, resulted in the awarding of 18,600 shares in 1981, 4,350 shares in 1980 and 1,650 shares in 1979 with total market value at dates awarded of $571,000, $113,000 and $44,000, respectively.

NOTE 5–RETAINED EARNINGS

Under the most restrictive terms of the Company's various loan agreements, the Company could not as of December 27, 1981 pay cash dividends or repurchase the Company's capital stock in amounts aggregating more than $94,600,000.

NOTE 6–SHUTDOWN/DISPOSAL PROVISION

In the third quarter of 1980, a provision was recorded for the closing of the Newport and Wilder, Kentucky steel making and related facilities. The provision of $37,000,000 was equivalent to $4.10 per share after applicable income taxes and covered estimated losses on the disposition of property, plant and equipment and inventories, and employee severance and other costs. Net sales of products from these facilities included in consolidated sales totaled $69,497,000 in 1980 and $102,564,000 in 1979. These facilities were sold in the second quarter of 1981 with no adjustment to the 1980 provision required.

NOTE 7–RETIREMENT BENEFITS

Pension costs totaled $17,024,000, $24,582,000 and $25,396,000 in 1981, 1980 and 1979, respectively. The decrease in 1981 was primarily attributable to an increase in the assumed rate of return on investments from 6% to 7% and to the exclusion of Newport and Wilder plant employees.

In addition to the above 1980 pension costs, the 1980 provision for the shutdown of the Newport and Wilder plants (see Note 6) included pension costs related to terminated employees.

A comparison of accumulated plan benefits and plan net assets for the Company's domestic defined benefit plans follows:

	December 27, 1981	December 28, 1980
Actuarial present value of accumulated plan benefits:	(In thousands)	
Vested	**$ 80,500**	$ 95,300
Non-vested	**1,600**	2,400
	$ 82,100	$ 97,700
Net assets available for plan benefits	**$219,700**	$219,400

The assumed rates of return used in determining the actuarial present value of accumulated plan benefits were 14.5% at December 27, 1981 and 12.4% at December 28, 1980 which were the Standard and Poor's average of AAA industrial and utility bond rates.

NOTE 8–INCOME TAXES

The provisions for taxes on income consist of:

	Currently Payable	Deferred	Total
		(In thousands)	
1981			
U.S. Federal	**$ 13,863**	**$ 5,312**	**$ 19,175**
Foreign	**9,622**	**(947)**	**8,675**
State and other	**3,103**	**–**	**3,103**
	$ 26,588	**$ 4,365**	**$ 30,953**
1980			
U.S. Federal	$ 7,521	$(13,019)	$ (5,498)
Foreign	8,153	714	8,867
State and other	2,629	–	2,629
	$ 18,303	$(12,305)	$ 5,998
1979			
U.S. Federal	$ (5,969)	$ 7,094	$ 1,125
Foreign	(1,199)	570	(629)
State and other	2,633	–	2,633
	$ (4,535)	$ 7,664	$ 3,129

The U.S. Federal income tax provisions were reduced by investment tax credits, net of recapture, of $2,409,000 in 1981, $1,142,000 in 1980 and $6,383,000 in 1979.

The deferred tax provisions result from timing differences in the recognition of income and expenses for tax and financial reporting purposes. Significant items and the tax effects thereof are as follows:

	1981	1980	1979
		(In thousands)	
Benefit on plant closing	**$ (1,529)**	$ (7,560)	$ 3,960
Retirement benefit costs	**2,047**	(1,915)	2,467
Equity in earnings of affiliated companies	**(109)**	(952)	144
Foreign translation and hedge contracts	**(1,959)**	(874)	93
Excess of tax over book depreciation	**6,888**	(68)	2,581
DISC operations	**(430)**	(30)	(414)
All other net	**(543)**	(906)	(1,167)
	$ 4,365	$(12,305)	$ 7,664

The effective income tax rates in 1981, 1980 and 1979 are reconciled to the federal statutory tax rates in the following table:

	1981	1980	1979
Statutory federal income tax rate	**46.0%**	46.0%	46.0%
Increase (reduction) in taxes resulting from:			
Tax effect of U.K. stock relief	**(2.4)**	(17.9)	(22.3)
Investment tax credit	**(3.0)**	(5.5)	(14.1)
Excess percentage over cost depletion	**(2.2)**	(4.4)	(3.9)
Earnings attributable to affiliated companies	**(1.6)**	(3.6)	(3.5)
State income taxes	**2.1**	6.9	3.1
Taxes on foreign income before stock relief	**1.1**	4.8	2.8
Non-deductible acquisition costs	**.1**	1.8	.7
All other net	**(1.0)**	1.1	(1.9)
	39.1%	29.2%	6.9%

The amounts included in consolidated income before taxes on income which represent income of foreign operations were $20,536,000, $27,764,000 and $17,458,000 for 1981, 1980 and 1979, respectively.

As of December 27, 1981, U.S. Federal income tax returns for the years 1976 through 1978 were in process of examination. All prior years have been examined and settled. All assessments have been paid including any applicable interest. The Company believes that adequate provision has been made for possible assessments of additional taxes.

Provision for U.S. taxes has not been made on approximately $71,000,000 of unremitted earnings of foreign subsidiaries, considered to be permanently reinvested at December 27, 1981.

Notes to Consolidated Financial Statements

NOTE 9–COMMITMENTS AND CONTINGENCIES

With respect to the Company's interest in two mining joint ventures, the Company is required to take its ownership proportion of 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. Such costs include, as a minimum and regardless of the quantity of ore received, annual interest and principal payments on the debt of these projects of approximately $4,000,000 through 1983, and lesser amounts thereafter.

The Company is involved, on a continuing basis, as a party to enforcement and other proceedings with governmental agencies relating to the application of environmental laws and regulations to certain of the Company's plants. In some of such proceedings, and in other ways pursuant to laws and regulations, government agencies have threatened or indicated imposition of penalties which, if such agencies prevailed, could involve sums material to the Company; these matters are routinely negotiated and, in the opinion of the Company, are not likely to result in the assessment of penalties material in amount. Several of such proceedings have been settled on the basis of Company commitments to meet certain emission standards and to install control facilities at substantial cost. The Company anticipates that capital expenditures for installation of environmentally-related facilities (including those agreed to in settlement of proceedings) will aggregate approximately $5,000,000 over the next three years.

NOTE 10–BUSINESS SEGMENT INFORMATION

The Company operates in six lines of business; four in metals and two in material handling products. Metals includes iron and steel, metal powders, investment castings and die castings, and silicon metal and ferroalloys. Materials handling consists of material handling and storage products and packaging. The accompanying tables present financial information by line of business for the years 1981, 1980 and 1979.

Sales between lines of business are primarily priced at market value for metal products and at distributor prices for material handling products. Operating profit consists of total sales and other revenues of a product line less all related operating expenses. Income and expenses which are not related to nor appropriately allocable to lines of business, primarily interest expense, are included in general corporate expense.

The liquidation of LIFO inventory quantities in 1980 increased income before taxes for iron and steel by $16.3 million (of which $7.8 million was included in the shutdown/disposal provision), for material handling and storage products $4.0 million, for packaging products $2.0 million, and for all other segments combined $.9 million.

The operating results of the iron and steel segment were impacted by the Newport and Wilder, Kentucky plant shutdowns in 1980 ($37.0 million); (see Note 6). Also, the packaging segment was adversely affected in 1980 by a $2.5 million provision for a plant relocation.

Total assets by line of business consist of those assets used directly in the operations of the product line. Corporate assets consist principally of cash, securities and investments in real property.

INFORMATION ABOUT THE COMPANY'S LINES OF BUSINESS

	Net Sales		Operating Profit	Assets	Depreciation Depletion &	Capital
	Customers (a)	Affiliates	(Loss)	At Year-End (b)	Amortization	Expenditures
1981				(In millions)		
Iron/Steel						
Operations	$ 274.3	$ 69.9	$ 6.1	$ 166.3	$ 11.5	$ 6.7
Equity in unconsolidated affiliates	–	–	13.2	43.7	–	–
	274.3	69.9	19.3	210.0	11.5	6.7
Metal Powders	87.7	–	16.9	83.0	3.0	4.2
Investment/Die Castings	108.5	–	14.1	66.3	1.9	8.9
Silicon Metal/ Ferroalloys	95.4	.3	8.9	54.3	2.2	3.4
Material Handling/ Storage Products	277.4	–	9.7	164.1	5.8	7.4
Packaging	173.3	1.7	13.2	78.8	1.4	6.8
Corporate Items/ Eliminations	–	(71.9)	(3.0)	53.7	.2	–
Consolidated	$1,016.6	$ –	$ 79.1	$ 710.2	$ 26.0	$ 37.4
1980						
Iron/Steel						
Operations	$ 274.4	$ 50.8	$ (41.8)	$ 198.4	$ 12.2	$ 7.6
Equity in unconsolidated affiliates	–	–	7.3	43.1	–	–
	274.4	50.8	(34.5)	241.5	12.2	7.6
Metal Powders	70.9	–	8.9	77.5	2.9	3.5
Investment/Die Castings	114.3	–	22.0	50.0	1.3	5.3
Silicon Metal/ Ferroalloys	83.4	1.1	6.2	45.0	2.1	1.1
Material Handling/ Storage Products	350.5	–	22.6	181.7	5.6	7.3
Packaging	162.4	1.7	8.9	71.8	2.4	6.5
Corporate Items/ Eliminations	–	(53.6)	(13.5)	36.1	.4	–
Consolidated	$1,055.9	$ –	$ 20.6	$ 703.6	$ 26.9	$ 31.3
1979						
Iron/Steel						
Operations	$ 362.2	$ 60.0	$ (16.6)	$ 229.1	$ 12.2	$ 32.9
Equity in unconsolidated affiliates	–	–	6.0	44.4	–	–
	362.2	60.0	(10.6)	273.5	12.2	32.9
Metal Powders	83.5	–	17.3	79.6	2.1	20.4
Investment/Die Castings	102.4	–	20.5	43.7	1.0	3.6
Silicon Metal/ Ferroalloys	87.5	1.2	8.5	48.6	2.1	.9
Material Handling/ Storage Products	294.3	.3	11.3	191.8	4.4	9.4
Packaging	174.7	2.5	10.5	74.4	2.8	2.4
Corporate Items/ Eliminations	–	(64.0)	(12.3)	22.0	.4	–
Consolidated	$1,104.6	$ –	$ 45.2	$ 733.6	$ 25.0	$ 69.6

	1981	1980	1979
(a) Includes sales in Iron/Steel operations of: Iron Products	$108.3	$ 61.0	$ 86.1
Steel Products	166.0	213.4	276.1
(b) Includes investment in unconsolidated affiliates in:			
Material Handling/Storage Products	–	.5	.6
Packaging	.3	.3	.2

Notes to Consolidated Financial Statements

INFORMATION ABOUT THE COMPANY'S OPERATIONS BY GEOGRAPHIC AREAS

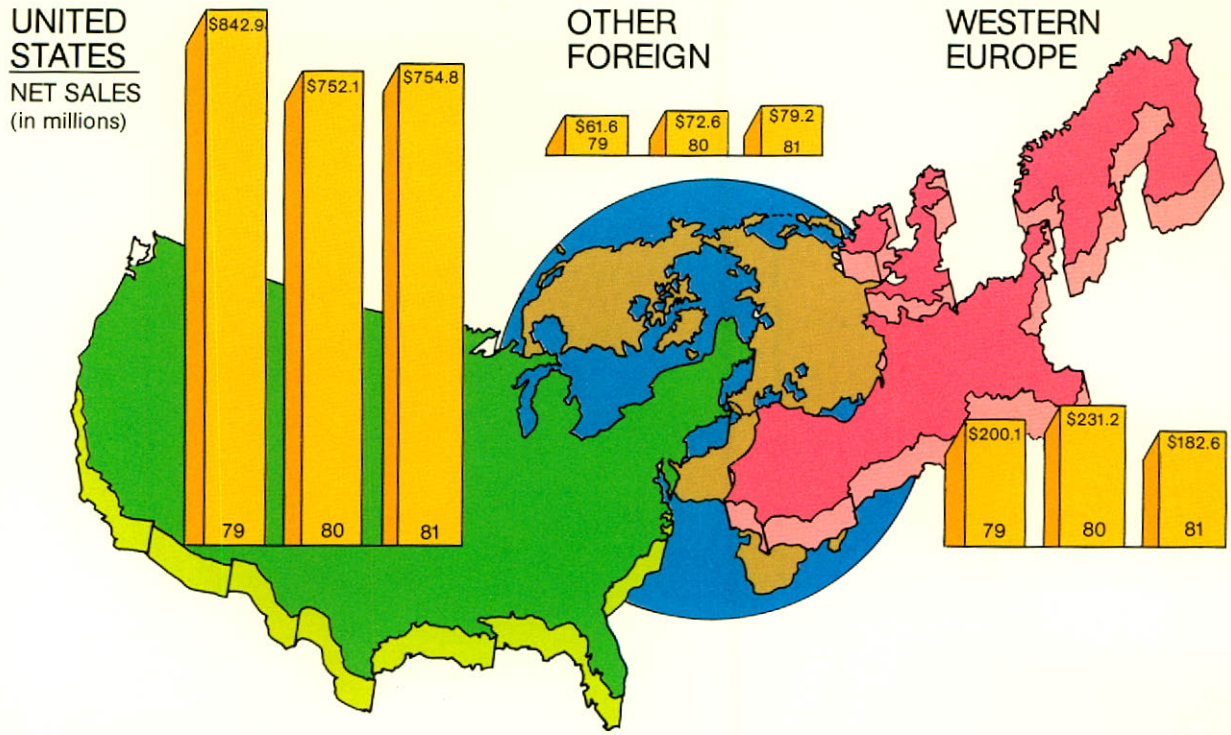
	Net Sales		Operating Profit (Loss)	Assets At Year-End
	Customers	Inter-geographic		
	(In millions)			
1981				
United States	$ 754.8	$ 3.4	$ 50.2	$ 444.3
Equity in unconsolidated affiliates	–	–	9.3	28.6
	754.8	3.4	59.5	472.9
Western Europe	182.6	.6	9.4	125.6
Equity in unconsolidated affiliates	–	–	–	–
	182.6	.6	9.4	125.6
All Other Foreign	79.2	–	8.8	42.6
Equity in unconsolidated affiliates	–	–	3.9	15.4
	79.2	–	12.7	58.0
Corporate Items/Eliminations	–	(4.0)	(2.5)	53.7
Consolidated	$1,016.6	$ –	$ 79.1	$ 710.2
1980				
United States	$ 752.1	$ 4.9	$ 2.0	$ 441.4
Equity in unconsolidated affiliates	–	–	5.4	30.1
	752.1	4.9	7.4	471.5
Western Europe	231.2	.7	15.7	144.8
Equity in unconsolidated affiliates	–	–	–	.4
	231.2	.7	15.7	145.2
All Other Foreign	72.6	.1	10.0	37.5
Equity in unconsolidated affiliates	–	–	1.9	13.3
	72.6	.1	11.9	50.8
Corporate Items/Eliminations	–	(5.7)	(14.4)	36.1
Consolidated	$1,055.9	$ –	$ 20.6	$ 703.6
1979				
United States	$ 842.9	$ 3.9	$ 34.8	$ 488.7
Equity in unconsolidated affiliates	–	–	2.4	33.3
	842.9	3.9	37.2	522.0
Western Europe	200.1	.8	9.4	142.5
Equity in unconsolidated affiliates	–	–	–	.6
	200.1	.8	9.4	143.1
All Other Foreign	61.6	.1	7.3	35.2
Equity in unconsolidated affiliates	–	–	3.6	11.3
	61.6	.1	10.9	46.5
Corporate Items/Eliminations	–	(4.8)	(12.3)	22.0
Consolidated	$1,104.6	$ –	$ 45.2	$ 733.6

The Company's interest in iron ore mining joint ventures in Minnesota and Labrador, Canada and coal mining joint ventures in West Virginia and Kentucky are accounted for by the equity method within the iron and steel business. Investments in material handling companies in Mexico and Japan are also accounted for on an equity basis.

Sales to the largest individual customers are not material in relation to consolidated sales, nor are sales to domestic or foreign government agencies. Transfers between geographic areas, which are virtually all in the material handling lines of business, are made at prices which approximate the prices of similar items sold to distributors. Operating profit by geographic area is the difference between total sales and other revenues attributable to the areas and related operating expenses. Income and expenses which are not related to nor appropriately allocable to geographic areas, primarily interest expense, are included in general Corporate expense. Export sales to unaffiliated customers included in the United States' sales are not material.

'All other foreign' includes operations in Canada, Mexico, Australia and Japan.

Total assets consist of those assets used directly in the operations in the geographic areas shown.



NOTE 11–INVESTMENTS IN IRON ORE INTERESTS

The Company holds investments in iron ore mining ventures, the principal investments being a 10% interest in Erie Mining Company and a 17.6% interest in Wabush Iron Company, Limited. Combined financial data of these companies is summarized below:

	1981	1980	1979
		(In thousands)	
Net working capital	**$ 97,661**	$ 70,298	$ 64,521
Capital assets, net of depreciation and depletion	**195,277**	208,660	223,813
Other assets	**13,440**	14,120	14,850
Long-term liabilities	**94,564**	103,865	113,821
Shareholders' equity	**211,814**	189,212	189,363
Revenues	**467,557**	339,114	394,989
Net income	**114,871**	59,886	75,784
Interlake's equity in net income, after consolidating eliminations	**12,729**	4,000	3,138

See Note 9 regarding the Company's obligations with respect to the long-term debt of these ventures.

Notes to Consolidated Financial Statements

NOTE 12–QUARTERLY RESULTS (UNAUDITED)

Quarterly results of operations for 1981, 1980 and 1979 were as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In millions except per share data)			
1981				
Net sales	**$267.1**	**$267.2**	**$255.1**	**$227.2**
Other revenues	**3.5**	**4.9**	**4.1**	**4.2**
Costs and expenses	**252.4**	**249.8**	**239.1**	**212.9**
Income before taxes on income and minority interest	**18.2**	**22.3**	**20.1**	**18.5**
Net income–Amount	**10.2**	**12.4**	**12.3**	**11.7**
–Per share	**1.67**	**2.03**	**2.01**	**1.88**
1980				
Net sales	$294.8	$277.7	$229.4	$254.0
Other revenues	2.7	1.8	1.4	2.0
Costs and expenses	278.9	273.0	263.9	227.4
Income (loss) before taxes on income and minority interest	18.6	6.5	(33.1)	28.6
Net income (loss)–Amount	11.3	5.6	(22.5)	19.4
–Per share	1.88	.94	(3.74)	3.21
1979				
Net sales	$264.5	$281.1	$271.6	$287.4
Other revenues	1.9	2.1	1.7	2.1
Costs and expenses	264.2	268.4	262.7	271.9
Income before taxes on income and minority interest	2.2	14.8	10.6	17.6
Net income–Amount	.8	9.7	15.6	13.6
–Per share	.14	1.62	2.62	2.28

In the fourth quarter of 1981 the Company adopted Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" with no material effect on quarterly results. Translation and hedging adjustments impacted 1980 and 1979 quarterly results as follows:

	Net Income (Loss)			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(In millions)			
1980	$2.5	$(3.8)	$1.3	$1.4
1979	(.2)	(.6)	.9	(.8)

The 1980 first quarter earnings reflected profitable operations in the iron and steel segment including the sale of certain facilities which increased net income by $.8 million. The low earnings in the first quarter of 1979 were primarily due to the iron and steel operations which were plagued by severe winter weather and by Chicago plant operating problems associated with a major facility rehabilitation program.

In the second quarter of 1981 vacant land adjacent to the Chicago coke plant was sold, increasing net income by $1.2 million. The second quarter of 1980 was severely affected by deteriorating economic conditions in the United States which affected most business segments.

The third quarter of 1980 was charged with a shutdown/disposal provision (see Note 6) which reduced net income by $24.7 million, or $4.10 per share, and a provision for relocation of a Packaging Division plant which reduced net income by $1.3 million, or $.22 per share.

The third quarter of 1979 benefited from the application of Statement of Financial Accounting Standards No. 31 regarding stock relief tax legislation in the United Kingdom which generated a tax credit of $7.4 million, or $1.24 per share, for the years 1973 through 1978. The third quarter of 1981 contained a stock relief tax credit of $1.5 million, or $.25 per share, compared to $.1 million, or $.01 per share, in the third quarter of 1980.

The fourth quarters of 1981, 1980 and 1979 contained stock relief tax credits of $.4 million, or $.07 per share, $3.0 million, or $.50 per share, and $1.5 million, or $.25 per share, respectively.

During the third and fourth quarters of 1980 inventory quantities were reduced resulting in a liquidation of LIFO inventory quantities carried at lower costs prevailing in prior years as compared with the cost of 1980 production. As a result, income before taxes was increased by $23.2 million, equivalent to $2.08 per share after applicable income taxes, of which $15.4 million, equivalent to $1.38 per share after applicable taxes, was reflected in cost of products sold ($5.0 million in the third quarter and $10.4 million in the fourth quarter) and the balance was included as a reduction of the shutdown/disposal provision (see Note 6).

Report of Independent Accountants

Price Waterhouse

To the Board of Directors and Shareholders of Interlake, Inc.

In our opinion, the accompanying consolidated balance sheet and the related statement of consolidated income and retained earnings and the statement of changes in consolidated financial position present fairly the financial position of Interlake, Inc. and its subsidiaries at December 27, 1981 and December 28, 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 27, 1981, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements 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.

Price Waterhouse

Chicago, Illinois
January 29, 1982

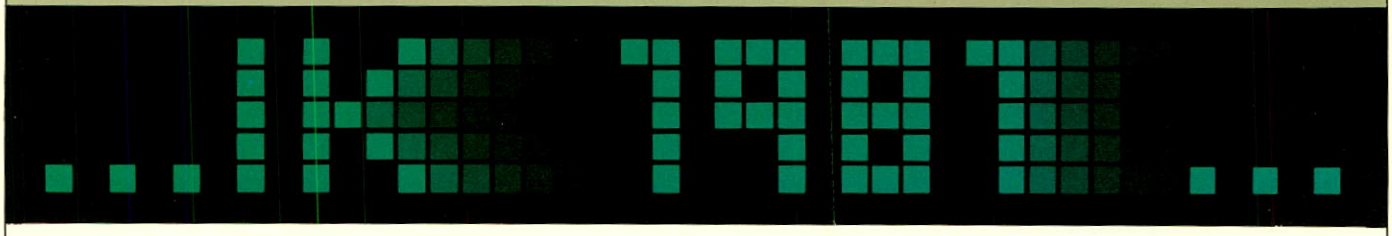
INFORMATION FOR SPECIAL USES

The financial statements and notes combined with Price Waterhouse's independent opinion are the reader's primary source of financial information. Management's comments in respect to business segments and financial developments are intended to expand the reader's understanding of this information.

The supplementary information section is intended to relay information that may be helpful, but is not essential. This may include information that has a different perspective from that of the primary financial statements or is summarized in a different manner.

Like other major companies, Interlake is required to provide supplementary financial data adjusted for effects of changing prices. While the primary financial information is expressed in historical dollars, this supplementary presentation measures information in constant dollars and current costs. This information is being used by some technical readers for specialized analyses and the value of these studies has not been established. These are experimental approaches to the presentation of financial information and no one is really certain as to what it will actually accomplish or how useful it may be to the general reader.

The remaining schedules in this section furnish the reader with information on the market for the Company's common stock and a five-year summary of selected financial data.



MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The principal market for the Company's common stock is the New York Stock Exchange (ticker symbol IK). The Company's common stock is also listed on the Midwest Stock Exchange and is admitted to unlisted trading on the Pacific Coast Exchange and the Boston Exchange.

On December 27, 1981 the approximate number of record holders of the Company's common stock was 18,909.

High and low stock prices and dividends for the last two years were:

	1981			1980		
	Sales Price		Per Share Cash Dividends Paid	Sales Price		Per Share Cash Dividends Paid
	High	Low		High	Low	
Calendar Quarter Ended						
March 31	$ 34¼	$ 27½	$ .55	$ 33¾	$ 22½	$ .55
June 30	41¼	33⅞	.55	27¾	22⅝	.55
September 30	45	33	.65	29½	25⅜	.55
December 31	37	33¼	.65	31¼	25½	.55

The Company expects to continue its policy of paying regular cash dividends, although there is no assurance as to future dividends because they are dependent on future earnings, capital requirements, and financial condition. In addition, the payment of dividends is subject to the restrictions described in Note 5 to the accompanying financial statements.

Supplementary Financial Information

SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES

The Financial Accounting Standards Board (FASB) has adopted supplementary disclosure requirements based on alternative measurements of traditonal financial information. In compliance with these requirements and the December 22, 1981 exposure draft on the proposed amendment of SFAS No. 33 for foreign currency translation, the historical cost (as reported) data has been adjusted to depict the effect of 1) general price level changes (constant dollar), and 2) price changes of specific assets (current cost).

Constant dollar adjustments bring historical cost data into units having the same general purchasing power by applying appropriate measures of the changes in the applicable general price level indexes.

Current cost adjustments to plant and equipment were determined by applying external price indexes closely related to the assets being measured to the historic acquisition costs of the assets; for land, current cost was primarily determined by reference to real estate tax assessments. Current cost of goods sold was determined by the LIFO (last-in, first-out) inventory method, which is principally the same method used by the Company in its primary financial statements, adjusted for any effect of prior-year LIFO layer liquidations.

Statement of Income Adjusted for Changing Prices

For The Year Ended December 27, 1981

	(In thousands)
Income as reported	$ 46,577
Constant dollar adjustments:	
–cost of goods sold	(5,682)
–depreciation and amortization expense	(16,739)
Income adjusted for general inflation	24,156
Adjustments to reflect the difference between constant dollar and current costs:	
–cost of goods sold	3,764
–depreciation and amortization expense	(3,884)
Income adjusted for changes in specific prices	$ 24,036
Gain from decline in purchasing power on net amounts owed	$ 10,621
Increase in general price level of inventories and property, plant and equipment held during the year	$ 66,254
Effect of increase in current cost*	52,309
Excess of increase in the general price level over the increase in current cost	$ 13,945
Aggregate foreign currency translation adjustments as reported	$(15,575)
–in constant dollars	$(19,860)
–in current cost	$(20,716)

* At December 27, 1981 current cost of inventory was $296.5 million and current cost of property, plant and equipment, net of accumulated depreciation was $462.4 million.

The constant dollar adjustments to reported income reflect the effect of general inflation on two principal categories of assets, resulting in:

- higher costs incurred to replace inventories sold during the year–an adjustment which is minimized because most inventories are valued by the LIFO method.
- higher depreciation expense that would arise if existing plant and equipment were replaced at higher constant dollar costs, reflecting assets with relatively long lives. The straight-line method was used for constant dollar depreciation for certain asset groupings depreciated in the primary financial statements on a basis which already reflected, in part, the effects of general inflation.

The current cost adjustments to reported income reflect the effect of price changes of specific assets, resulting in:

- higher costs of goods sold, as in the constant dollar adjustment–however, current costs for replacing inventories valued on the FIFO (first-in, first-out) method increased less than the general rate of inflation.
- higher depreciation expense, as in the constant dollar adjustment, with the additional amount attributed to a faster increase in specific prices for the related assets than the general rate of inflation.

Neither alternative measure for the effects of changing prices has been adjusted for the tax effects normally associated with incurring higher costs because the FASB standard does not permit such modifications and theoretical adjustments are not allowed for federal tax purposes.

Comparison of Selected Data Adjusted for Effects of Changing Prices

	1981	1980	1979	1978	1977
	(Dollar amounts in thousands except per share statistics)				
Net sales and other revenues					
–as reported	**$1,033,311**	$1,063,763	$1,112,435	$ 929,845	$ 773,058
–in constant dollars	**1,033,311**	1,174,105	1,393,870	1,296,263	1,160,226
Net income (loss)					
–as reported	**46,577**	13,818	39,735		
–in constant dollars	**24,156**	(32,405)	20,877		
–in current cost	**24,036**	(35,062)	19,627		
Net income (loss) per common share					
–as reported	**7.59**	2.29	6.66		
–in constant dollars	**3.94**	(5.36)	3.50		
–in current cost	**3.92**	(5.81)	3.28		
Cash dividends per common share					
–as declared	**2.40**	2.20	2.20	2.20	2.20
–in constant dollars	**2.40**	2.43	2.76	3.07	3.30
Market price per common share at year end					
–as reported	**33.88**	27.75	25.00	23.00	28.25
–in constant dollars	**32.78**	29.25	29.62	30.88	41.35
Net assets at year end					
–as reported	**358,748**	336,707	333,981		
–in constant dollars	**645,537**	652,337	698,681		
–in current cost	**662,358**	673,114	749,559		
Gain from decline in purchasing power on net amounts owed	**10,621**	20,823	24,386		
Excess of increase in the general price level over the increase in current cost	**13,945**	32,847	28,490		
Average consumer price index (1967 = 100.0)	**272.4**	246.8	217.4	195.4	181.5

In 1980, liquidation of LIFO inventory quantities required an adjustment to constant dollar and current cost amounts of cost of goods sold of $17.8 million and $17.0 million, respectively, in 1981 average dollars.

The shutdown/disposal provision in 1980 included the reduction of historical costs to expected realizable values. As such, the adjustments for the effects of changing prices were not necessary for assets related to this provision.

None of the preceding data includes current cost information on mineral properties held by joint ventures in which the Company holds investments accounted for by the equity method. The Company's share of estimated mineral reserves of these joint ventures as of December 27, 1981 were approximately 143 million net tons of iron ore and 20 million net tons of metallurgical coal. The prevailing average market prices per ton in 1981 for this iron ore and coal were $37.63 and $41.77, respectively. This information in and of itself is not meaningful without due consideration of the significant and ever-increasing costs of extraction, processing and shipping and associated capital expenditures.

Supplementary Financial Information

SELECTED FINANCIAL DATA

	1981	1980	1979	1978	1977
		(In thousands of dollars except per share data)			
For the Year					
Sales and revenues:					
Net sales	**$1,016,605**	$1,055,883	$1,104,588	$ 921,127	$ 766,614
Other revenues	**16,706**	7,880	7,847	8,718	6,444
	1,033,311	1,063,763	1,112,435	929,845	773,058
Income before nonrecurring item and taxes on income	**79,119**	57,553	45,177	31,626	34,284
Shutdown/disposal provision	**–**	37,000	–	15,682	–
Income before taxes on income	**79,119**	20,553	45,177	15,944	34,284
Provision for income taxes	**30,953**	5,998	3,129	3,100	14,010
	48,166	14,555	42,048	12,844	20,274
Minority interest in net income of subsidiaries	**1,589**	737	2,313	2,356	1,542
Net income	**$ 46,577**	$ 13,818	$ 39,735	$ 10,488	$ 18,732
Net income per common share	**$ 7.59**	$ 2.29	$ 6.66	$ 1.77	$ 3.17
Cash dividends per common share	**2.40**	2.20	2.20	2.20	2.20
At Year End					
Working capital					
–amount	**$ 199,803**	$ 181,145	$ 162,270	$ 163,348	$ 140,682
–current ratio	**2.2 to 1**	2.0 to 1	1.7 to 1	1.9 to 1	2.0 to 1
Total assets	**710,217**	703,618	733,559	658,415	559,568
Long-term debt, less current maturities	**126,618**	133,020	135,503	136,169	85,233
Common shareholders' equity					
–amount	**358,748**	336,707	333,981	306,311	308,400
–per common share	**58.06**	55.30	55.64	51.41	52.05

NOTE: 1978 was a 53-week year while all other periods were 52-week years.

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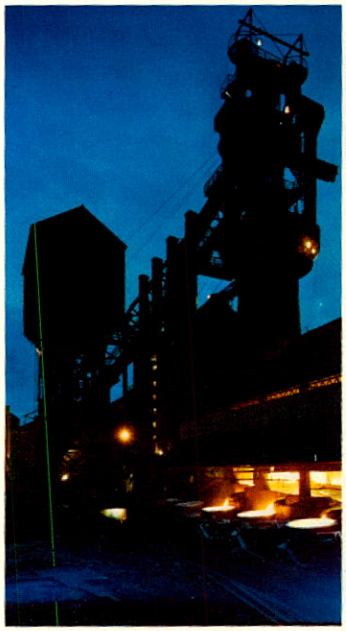

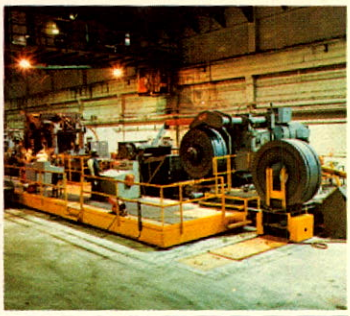

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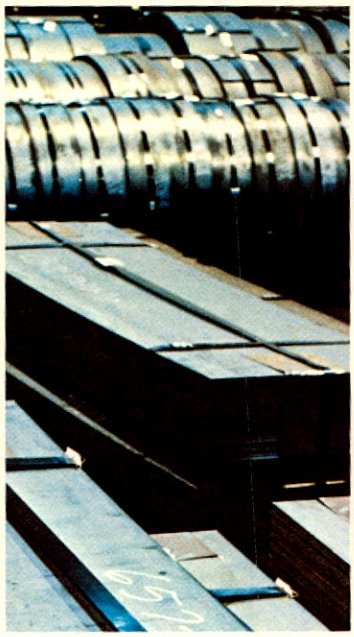

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Was it a great year for us? Not entirely. But we did set new records, and that didn't just happen. In spite of economic conditions, we worked hard...and did well. Several of our major markets were distressed by recession; some of our strongest businesses suffered the ripple effects. But like other years, 1981 must be seen in perspective: because Interlake people did a lot of things right. And we're proud of them.

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And we set 1981 records with the style and the philosophy that have always fueled our growth: belief in the free enterprise system and confidence in the entrepreneurial spirit.

What will 1982 bring? Most agree there will be an economic upturn...sooner or later. *But whatever happens, Interlake will be ready.*

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Record performance in a year like 1981 should tell you something about Interlake.