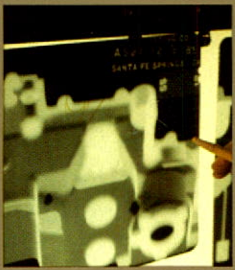
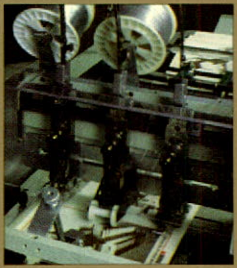
Interlake, Inc. 1983 Annual Report







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Contents

1983 Highlights	3
Letter to Shareholders	4
Perspectives on Value	7
Management's Discussion and Analysis	16
Consolidated Financial Statements	20
Notes to Consolidated Financial Statements	23
Selected Financial Data	35
Data Adjusted for Effects of Changing Prices	36
Market for Interlake Stock	38
Officers, Directors and Operating Executives	Inside Back Cover

Interlake, Inc. is a diversified multi-national company which makes investment and die castings, metal powders, silicon metal and ferroalloys, iron and steel, packaging equipment and supplies, and material handling/storage products.

Annual Meeting

Shareholders are invited to attend the Corporation's 1984 Annual Meeting at 10:00 A.M. (Eastern Standard Time) on Thursday, April 26, 1984, in the Jade Room, Third Floor, The Waldorf-Astoria, 301 Park Avenue, New York, New York. A Proxy Statement is being mailed to shareholders with this Annual Report.

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 also may be made commission-free. For information write: Secretary, Interlake, Inc., 2015 Spring Road, Oak Brook, Illinois 60521.

Common Stock Listed and Traded
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

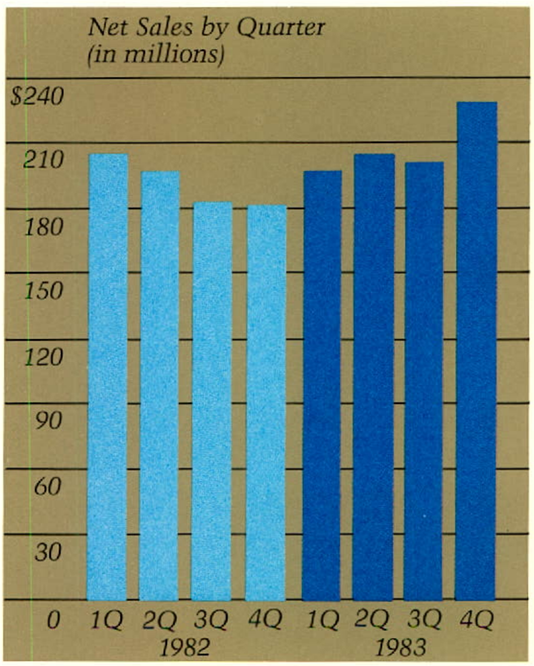
Copies of the Corporation's 10-K Annual Report to the Securities and Exchange Commission are available upon request. Shareholders desiring a Form 10-K or additional information about Interlake should address their inquiries to: Secretary, Interlake, Inc., 2015 Spring Road, Oak Brook, Illinois 60521.

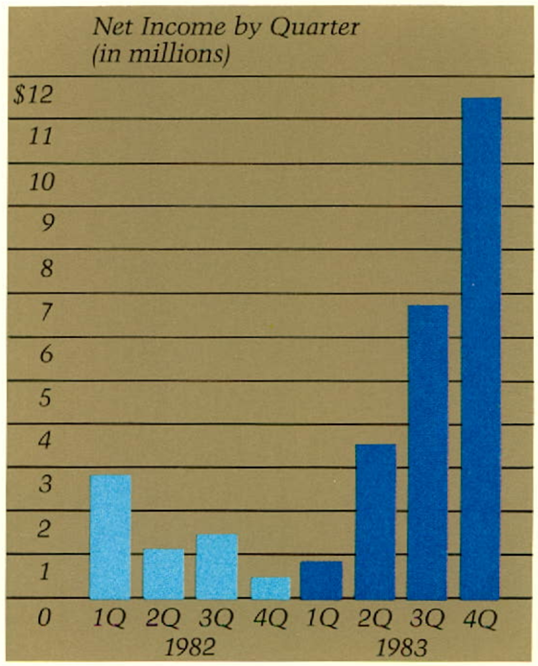
Interlake, Inc. 1983 Financial Highlights

Financial Highlights

For The Year (in thousands)	1983	1982	% Change
Net sales	**$835,041**	$767,300	8.8
Net income	**22,824**	5,752	296.8
Capital expenditures	**16,536**	27,864	(40.7)
Cash dividends declared or paid	**15,060**	15,998	(5.9)
At Year-End (in thousands)			
Working capital	**$202,860**	$175,891	15.3
Current ratio	**2.2 to 1**	2.1 to 1	
Property, plant and equipment—net	**247,024**	260,236	(5.1)
Long-term debt, less current maturities	**115,994**	122,338	(5.2)
Shareholders' equity	**327,401**	323,251	1.3
Shares outstanding	**5,834**	5,708	2.2
Per Share Statistics			
Net income	**$ 3.94**	$ .92	328.3
Cash dividends declared or paid	**2.60**	2.60	—
Shareholders' equity at year-end	**56.12**	56.63	(0.9)

Quarterly Information





To Our Shareholders and Employees:

Interlake's sales and earnings improved throughout 1983 as the United States economy strengthened.

1983 net income was $22.8 million, equal to $3.94 per share, compared with $5.8 million, or $.92 per share, in 1982. Sales improved to $835 million from $767.3 million.

In the 1983 fourth quarter, net income was $11.5 million, or $1.99 per share, up from $493,000, or $.08 per share in the same 1982 period, while sales rose to $229.8 million from $180.3 million.

Two unusual items affected net income in the 1983 fourth quarter. The decision to restructure certain European materials handling operations lowered net income by $4.3 million, or $.75 per share. Proceeds from the final settlement of the 1981 sale of the Newport and Wilder, Kentucky, steelmaking facilities, however, raised the net by $5.3 million, or $.91 per share.

The Year in Review

Increased automotive, consumer durables and defense sales had a positive effect on several of our businesses, including castings, iron-based powders, iron and steel, packaging products and specialty ferroalloys. The depressed capital goods market, however, contributed to a sales decline and a loss for material handling and storage products.

Demand in most American markets during the year was best characterized as moderate, but improving. Intense competition prevailed and inhibited price increases for both the products Interlake sells and the materials we buy.

Selling and administrative expenses continued to decrease. Although sales increased by $67.7 million, selling and administrative costs were reduced by more than $4 million.

The resourcefulness of Interlake people at all levels improved productivity and efficiency, held costs in check and contributed to better earnings. Iron and Steel Division employees, for example, lowered man-hours per ton of product shipped. At the division's steelmaking plant in Riverdale, Illinois, Labor-Management Participation Teams are bringing together hourly and salaried employees to solve problems.

Capital Spending

Our capital expenditures for the year were $16.5 million, compared with $27.9 million in 1982. We maintained current productive capability and also invested in expansions and productivity improvements.

Some of the capital spending and investment projects:

- Completion of our Hoeganaes metal powders research center.
- Addition of an annealing furnace at the Hoeganaes plant in Riverton, New Jersey.
- Purchase of equipment to produce high quality polyester strapping, which resulted in the expansion of our Fountain Inn, South Carolina, plant and a 45% increase in sales of domestic non-metallic strapping.
- Investment in a Swedish firm, CIPS KB, to develop metal powder parts forming technology and production equipment for licensing.
- Expansion of the airfoil investment casting plant in Mentor, Ohio.
- Installation of new product tooling and computer-aided design equipment at various domestic material handling and storage products plants.

Even through the recession, Interlake maintained its focus on implementing better manufacturing technology and developing new products. We encourage you to read the next several pages, which relate how Interlake strives to provide extra value to customers.

Dividends, Stock Repurchase

Interlake's improving financial condition and earnings performance enabled your directors to vote quarterly dividends of $.65 per share throughout 1983.

As we reported to you last year, in late 1982 Madison Fund, Inc. sold all of its Interlake stock—714,929 shares to Interlake and one million shares to several investors, sub-

Frederick C. Langenberg (right) became chairman and chief executive officer, and Edward D. Hopkins became president and chief operating officer on November 1, 1983. Mr. Langenberg had been president and chief executive officer since April, 1982. Mr. Hopkins joined Interlake as executive vice president in May, 1983, and was elected a director in August.

ject to standstill agreements between Interlake and each investor. In May, 1983, the investors sold 500,000 shares to several institutional investors and fund managers, with Interlake's consent.

At the end of January, 1984, we agreed with the investors to repurchase all their remaining 500,000 shares at $43.25 per share. The purchase was completed February 7, and the standstill agreements with the investors were amended to limit the amount of Interlake stock each investor may acquire during the term of the agreements.

Officer and Director Changes

There have been several changes in Interlake's leadership since the last annual report and proxy statement were published a year ago.

Reynold C. MacDonald, chairman since 1972, retired from that position on October 31, 1983, although he continues as a director. Robert Jacobs, who had been vice chairman since 1982, and whose membership on the board dated from 1969, retired from both positions on August 31, 1983. Derald H. Ruttenberg, who became a director in 1982, resigned from the board on February 23, 1984. These gentlemen have given exceptional leadership and counsel; to them go the board's and management's deepest appreciation for their contributions.

William G. Mitchell, president of Centel Corporation, was elected to the board in January, 1984.

We were deeply saddened early this year by the death of Ralph K. Frew, vice president of employee relations since 1966 and a recognized leader in the industrial relations field. Mr. Frew has been succeeded by David R. Downs, who has joined the company as vice president of human resources.

Outlook

For the first time this decade, each of our diversified businesses foresees better prospects in the year to come for the markets they serve. We look forward to continued growth in automotive and other consumer durables, housing, defense, chemicals and electronics. Energy, agricultural machinery and industrial equipment should also do better. The long-awaited improvement in capital goods demand should aid sales and earnings recovery for our material handling and storage products operations. We are projecting modest improvement in markets abroad.

As these markets expand, Interlake plans to approximately double capital spending from 1983 levels.

We are significantly changing our planning and budgeting process, placing more emphasis on strategic planning. We are reappraising Interlake's businesses. The events of the last three years—including lower inflation and increased foreign competition— require that this be done.

Success in 1984 also requires sound public policies. We must avoid the return of high inflation and excessive interest rates. Budget deficits must be reduced, but not by weakening American defense.

Another major concern is the mammoth and worsening United States trade deficit, which ultimately could choke off recovery. Interlake makes excellent products, efficiently and competitively. We are eager to sell them to the world, but working against us are an overly strong U.S. dollar and foreign governments' policies which subsidize their exports, encourage improper trade practices and restrict entry to their markets. As a last resort, Interlake has endorsed certain domestic trade measures which respond to trade abuses. However, we continue to prefer a common dedication among nations to expand business opportunities around the globe.

Frederick C. Langenberg

Frederick C. Langenberg
Chairman and Chief Executive Officer

Edward D. Hopkins

Edward D. Hopkins
President and Chief Operating Officer

March 1, 1984

Before innovative metal powder forging can be used effectively, Interlake people must listen. Robert Owens *(right)* of Hoeganaes with customer Ed Martin of Imperial Clevite, a major producer of powder forged parts.

Perspectives on Value

With recovery underway, many American businesses are carefully studying lessons taught by the recent recession. Surviving companies discovered some hard truths. Certainly Interlake is stronger now because of the experience.

We reaffirmed that the Interlake approach to making and selling products is one which performs well in good times and bad. This is our blueprint for stability and success:

Give the customer value—and he will come back to us.

Consider the companies who have done things *right* in recent years. Their strengths. Their attitudes about customer satisfaction. Their consistent ability to deliver a good product at a fair price. Their commitment to back up what they sell. Their concept of *value* . . . in customers' terms.

What does value mean at Interlake? And how do our companies deliver value that makes customers prefer Interlake over a competitor?

Our businesses deliver value in different ways. Three cases in point:

For Interlake's *Hoeganaes Corporation,* North America's largest supplier of ferrous metal powders, value rests in leadership. Our commitment to research and development. Creation of new products and processes and an expanding technology.

For *Acme Packaging Division,* value flows through customer support by the industry's leading sales organization.

For *Arwood Corporation's* die casting operations, value is the broad capability of a powerful national company in an industry where most operations are regional or local.

For every division in every market, we believe that value springs from five ideas: *technology, quality, service, productivity* and *innovation.* In the final analysis, value is our ability to give our customers a

Computer controlled storage, inventory control and order picking from the Material Handling and Storage Products Division have revolutionized warehousing and shipping for this major audio products manufacturer.

combination of benefits they cannot find elsewhere.

Value is technology

Customers in every market we serve have their own unique demands for our products. Their own expectations about suppliers. To respond to these varied and changing needs, Interlake companies look for special opportunities to apply our *technology*.

To aerospace customers who want to investment cast a complex part for the first time, Arwood's expertise in working with more than 80 alloys is the answer. For companies like food distributors, seeking better inventory control and shipping methods, our world-wide material handling and storage businesses are leaders in many technologies—from simple pallet rack to computer-controlled order picking.

Interlake customers see our technology applied directly to their problem. Because we work with them to find the best answer. They benefit immediately . . . and we become stronger suppliers in the long run.

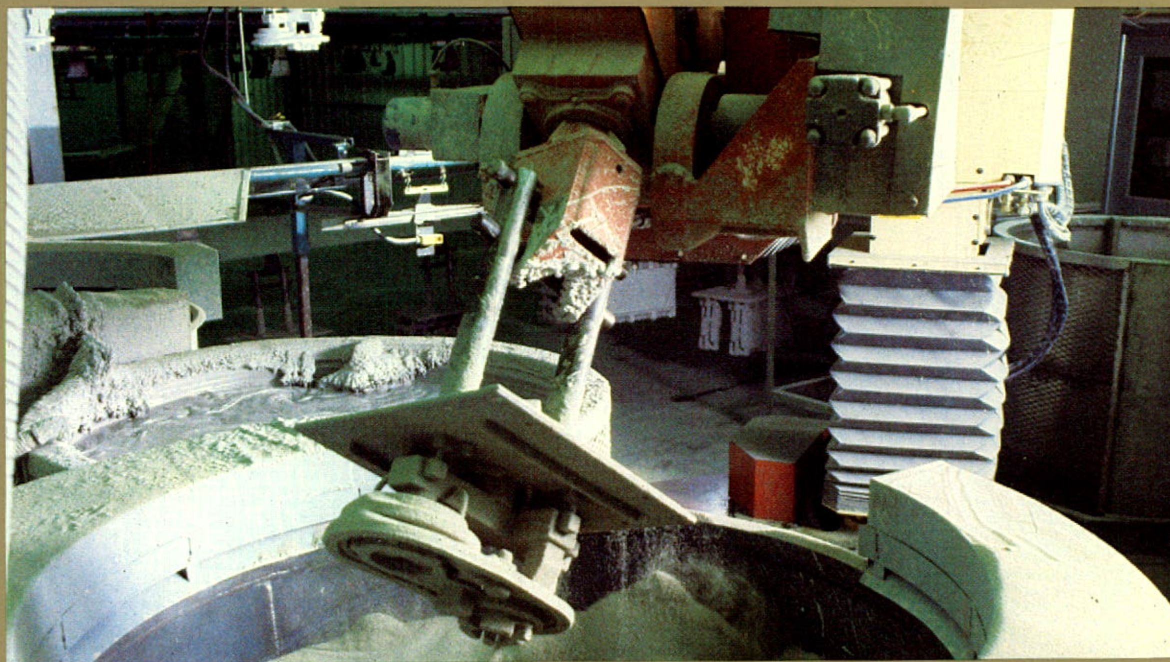
Value is quality

In the marketplace, every merchant claims *quality*. Not all of them deliver.

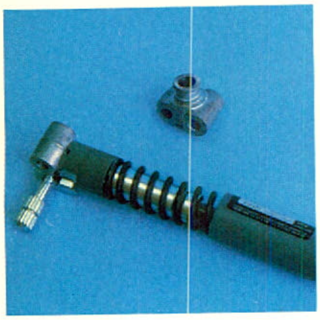
Product quality always enters into the buying decision: customers expect the best possible product for their money. Interlake companies have earned their reputations for quality. By understanding customer expectations in a project's early stages. By balancing the cost-and-performance factors to produce an answer that solves the problem.

It may be Acme Packaging's Loop Stitcher—a reliable machine that eliminates three-hole punching or drilling of printed material.

Robot machines perform tasks with computer programmed accuracy at several Arwood plants. Investment castings in clustered patterns are dipped uniformly in ceramic particles.



Arwood investment castings require rigorous quality control before going to customers. X-ray analysis exposes the smallest flaws in close tolerance aerospace applications.



Award winning die casting developed by Arwood's W. L. Chapman plant for major automotive supplier adds 25% tensile strength to automobile seat recliner lever. Minimum trimming and reaming requirements result in near-net-shape efficiency.

It may be Arwood fulfilling a defense contract with precise, intricate investment castings for advanced jet fighters.

Our opportunities change. But the quality criterion never varies: always meet the customer's requirements. Better than the competition. Exactly as the customer expects.

Value is service

Like many companies, we specialize. We operate in many industrial markets where we can apply our special expertise in metals and materials handling. And we are not alone, by any means. Competition is strong.

In bottom-line terms, customers are extremely demanding. Especially when two products—ours and a competitive one—look and perform nearly alike.

So why do thousands of buyers in dozens of diverse industries choose our products? Because our value combination includes an extra ingredient: *service.*

Our people deliver. To the automotive component manufacturer who needs Arwood's die castings on time, as ordered, to keep his production line going. To the customer who is shipping product as fast as he can make it . . . and depending on Acme's reliable strapping machines to keep pace.

When the customer puts a value on reliable service, he comes to Interlake.

Value is productivity

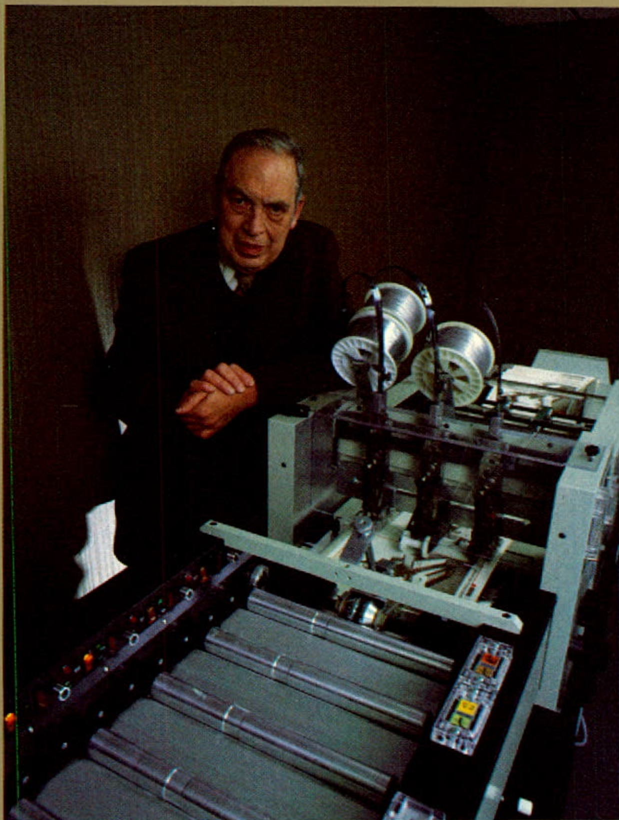
No other factor in the profit equation has received more attention in recent years than *productivity.* No other factor has a higher premium; none is more misunderstood.

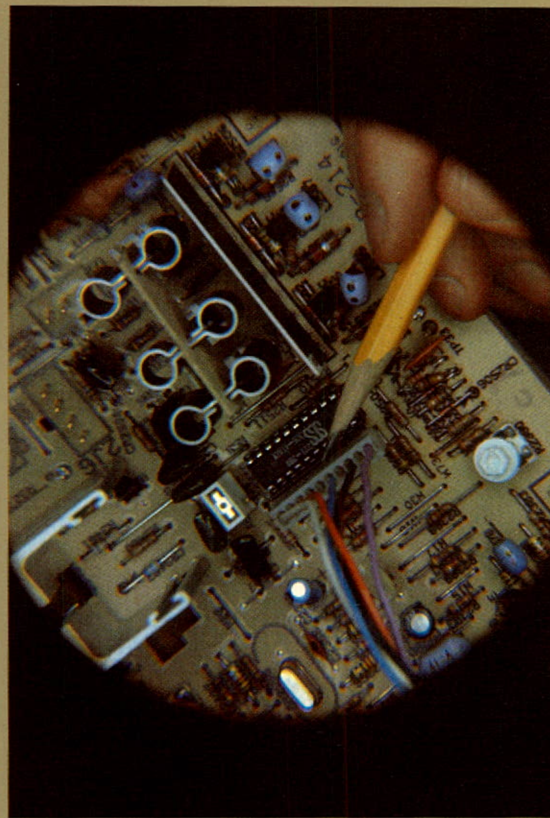
New Acme Packaging Loop Stitch stitching heads add value to C. P. Bourg's line of high speed collating machines. Specifications were developed by Elmer R. Stafford, purchasing manager for Bourg's New Bedford, MA plant.

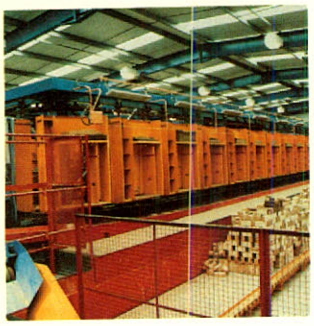
Globe Metallurgical provides high quality silicon metal to producers of silicon chips, the heart of today's electronics systems.

John Deere combines are built to last. The Iron and Steel Division's high carbon strip steel provides the strength to weight ratios needed to make this equipment "run like a Deere."

Multi-level conveyor, manufactured by Dexion Ltd., helped a major British auto producer increase storage capacity 80% with only 20% more space at a new parts warehouse.







A whole new way to handle and package brick developed by Gerrard Industries Ltd., helped London Brick save thousands of dollars per month while improving material flow and package quality.

Consider this. A consumer products company buys electronic components from sub-assembly manufacturers. These manufacturers, in turn, buy finished silicon chips from semiconductor makers, who have bought raw, bulk silicon metal from Interlake's *Globe Metallurgical Division*.

Labor-Management Participation Teams at the *Iron and Steel Division's* Riverdale plant are based on the premise that every employee has a stake in getting the job done better and more efficiently. That good ideas and creativity come from all quarters, and that a climate which encourages participation leads to improved operations.

Now how many different meanings—all valid—can we put on productivity?

Or what special value does an Iowa farmer put on his own productivity—when he relies on a combine using high-carbon steel from Interlake?

Productivity doesn't start or stop at any link in the chain. And productivity is not just the steps we take internally to do a better job. It reaches right into the competitive marketplace—and becomes value.

Value is innovation

Creativity and imagination don't show up on a corporate balance sheet. But they are vital assets. Innovation is everywhere in America's businesses.

Interlake nurtures it for two simple reasons. Customers expect it. And it is the key to our future.

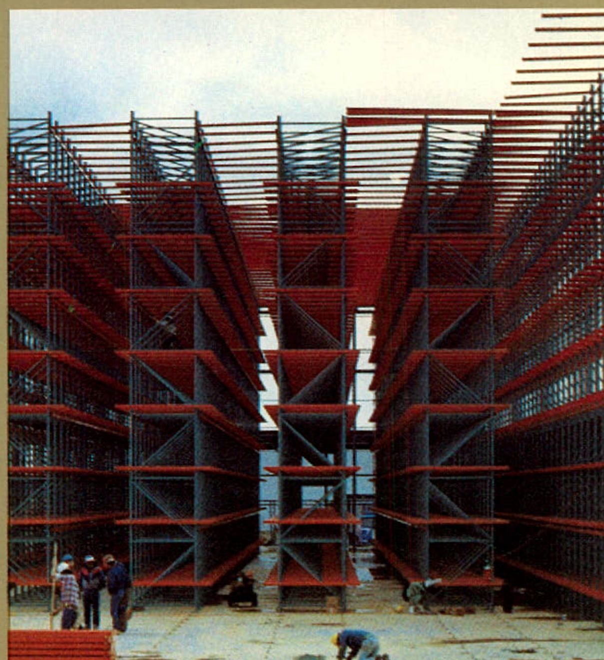
Combine broad experience, technical expertise, marketing savvy and an environment to imagine and create . . . and you get answers that customers like.

It might be found in the expanding metal powders industry

Even seemingly simple products can be innovative. Acme Packaging developed a machine to apply clips that close poultry bags faster and for less money, while improving package strength.

The latest generation of Acme strapping machines speeds the application of plastic strapping 55% and offers a full range of automation options to users.

For this customer the storage units *are* the building. Maximum efficiency rack-supported buildings provide optimum use of storage space and cut building costs substantially.



Interack-30 is a completely new way to build pallet rack. A basic design change makes rack 15% stronger, more rigid and even more versatile.

where Hoeganaes is directing research effort into a process called "cold isostatic pressing"—so customers can make larger and more complex powder metal parts with less costly tooling.

It might also be found for high-technology industries which want to obtain silicon metal and ferroalloys—crushed and ground to micron-sized particles—directly from the producer. Globe Metallurgical Division has developed techniques to produce this material in volume.

We can't put a price tag on innovation. Our customers never see it listed on a shipping form or invoice. But without innovation, products—and companies—will sit on the shelf and gather dust.

Putting a value on tomorrow

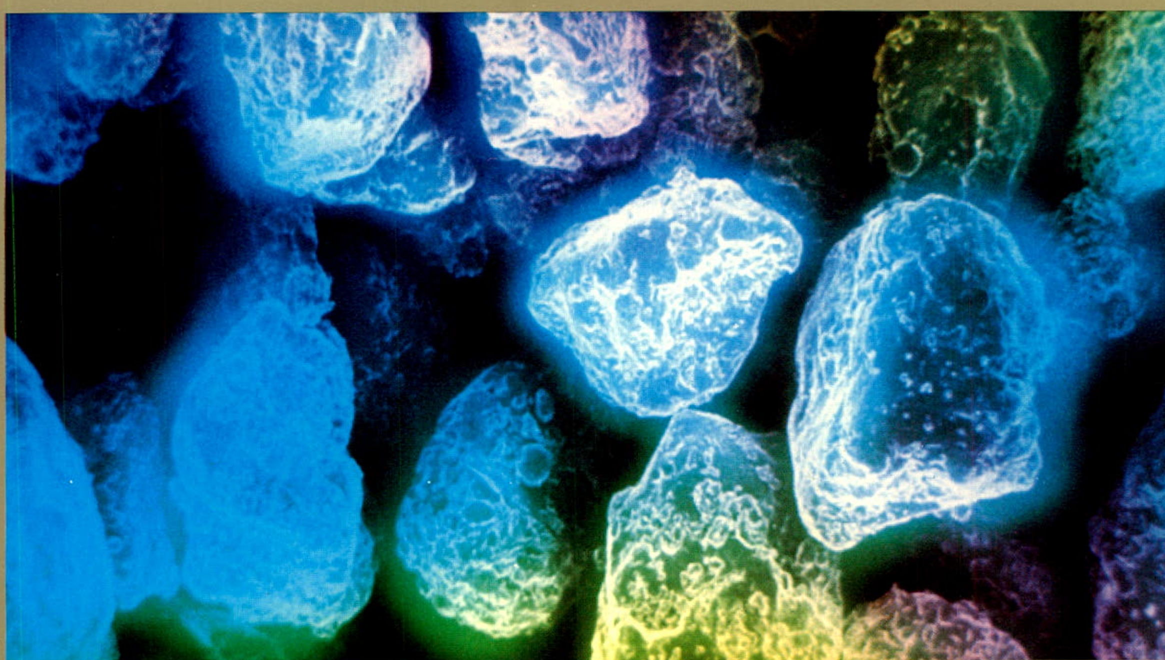
Investing for the company's future. Positioning it for growth. Predicting market expansion and international trends. Putting priorities on plants and products. Developing the talents of people who can maximize opportunities and produce results. Every company faces these challenges in its own way.

Interlake has always put a special value on planned, managed growth. It has meant internal expansion, acquiring new businesses and divesting ourselves of others. It has meant streamlining operations, improving processes, tightening cost controls, automating many functions, computerizing where economically beneficial . . . and maintaining a strong, solid financial position at all times.

We will continue to plan carefully, move aggressively and manage effectively. Because shareholders, customers and employees put a very real value on Interlake's future.

The Scanning Electron Microscope reveals the once-invisible world of micro-properties at the Hoeganaes Research and Development Laboratory, Riverton, NJ.

The shapes and surface characteristics of individual metal powder particles are explored through a Scanning Electron Microscope at 180,000 times magnification.



Management's Discussion and Analysis of Results of Operations and Financial Condition

W. Robert Reum
Vice President—
Finance and
Chief Financial Officer

Results of Operations 1983 Compared to 1982

Consolidated net sales increased by 8.8% in 1983 to $835.0 million from $767.3 million in 1982. Net income rose to $22.8 million, or $3.94 per share, in 1983 from 1982's depressed level of $5.8 million, or $.92 per share. The Company's results trended upward throughout the year.

An economic recovery gained momentum in 1983 after the severe, worldwide recession in 1982. The pace of recovery was uneven in the markets served by Interlake. The automotive, housing, military aerospace, foundry, office equipment and consumer durables markets improved more rapidly than the industrial construction, commercial aerospace and capital goods markets.

Average prices received in 1983 for the Company's products were slightly lower than those in 1982; this decrease reflected competitive conditions and moderate rates of inflation. However, costs of most major raw materials used were also held stable.

The increase in sales was volume-related. Total unit shipments of the metals businesses exceeded 1982's level by 29%. Partly offsetting these gains were lower shipments of material handling products. This decrease resulted from the slow rate of worldwide recovery in the capital goods markets. In addition, weakened foreign currency values in relation to the U.S. dollar caused translated sales of the materials handling businesses to be $20.9 million lower than in 1982.

Consolidated selling and administrative expenses decreased in 1983 despite the increase in sales. This decline was due to cost reductions in 1982 and 1983.

Operating income advanced to $45.3 million for 1983 from 1982's depressed level of $7.8 million. Operating income of all businesses except material handling/storage products improved significantly.

Investment/Die Castings

Sales and operating profits increased in 1983. Sales of investment castings declined slightly as a continuing weakness in the commercial aerospace business more than offset an upturn in the military aerospace market. Die casting sales, aided by a sizeable recovery in the housing and consumer durable goods markets, improved significantly. Late in 1982 the Hazleton and Jetshapes plants were closed, resulting in a charge against income of $3.6 million.

Metal Powders

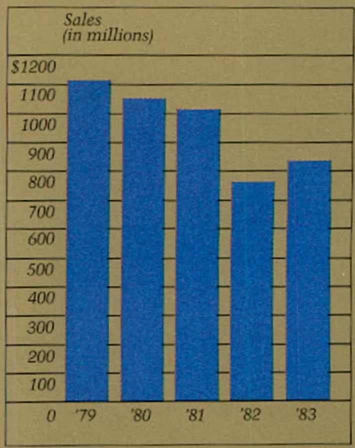
The recovery of the domestic automotive industry was the most significant factor in the substantial increase in shipments of metal powders in 1983. Operating profit was enhanced by higher production and sales volumes and productivity gains.

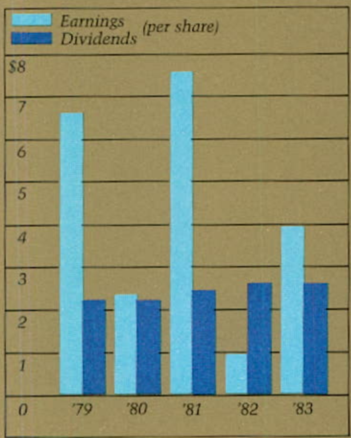
Silicon Metal/Ferroalloys

The substantial increase in sales resulted primarily from major unit volume improvements in silicon metal sales, due to the recovery in the aluminum and chemical industries. Also, ferroalloy sales increased as a result of the automotive industry upturn. Margins were eroded by significant foreign and domestic competition which forced price reductions for most major products in late 1982 and early 1983. Lower material costs, wage reductions and volume improvements more than offset the lower margins. In 1983 an operating loss was reported which was lower than the loss in 1982.

Iron/Steel

Sales of the principal products, molten iron and flat rolled steel, improved significantly over 1982's extremely depressed levels. Actions were taken to reduce break-even levels, and higher production volume, lower material costs and wage and pension cost reductions were realized.





As a result, the segment achieved an operating profit in 1983 after a loss in 1982.

Packaging

Sales were up moderately in 1983. Modest increases in domestic sales of metallic and non-metallic strapping and stitching products were accompanied by more pronounced improvements in the Canadian and British markets. Operating profit increased more than proportionately to sales, as cost reductions and controls implemented in 1982 and 1983 were increasingly effective.

Material Handling/Storage Products

Sales declined and an operating loss was incurred. The results of this business' substantial foreign operations were affected by lower foreign currency values in relation to the U.S. dollar. This factor accounted for 60% of the year-to-year decline in total sales. In addition, the demand for storage products in Europe and Canada continued to decline. In the U.S., stagnant capital spending, particularly for commercial construction, and price weakness in the highly competitive rack market reduced sales and earnings.

Non-Operating Items

Interest income declined $1.5 million in 1983, as the benefit of increased short-term investments was more than offset by a decline in interest rates. Non-operating income was down $2.7 million in 1983, due primarily to lower royalty income and losses on dispositions of capital assets.

Unusual Items

In 1983, a pre-tax provision of $10.5 million was recorded for the estimated cost of restructuring certain materials handling operations in Europe for the purpose of achieving acceptable levels of profitability. Also, 1983 pre-tax income was increased by $8.4 million, principally to reflect the final settlement of the 1981 sale of the Newport and Wilder, Kentucky, steelmaking facilities. In 1982, income was increased by $1.3 million to adjust earlier Toledo, Ohio, and Newport/Wilder, Kentucky, shutdown/disposal provisions for updated determinations of employee severance costs and investment tax credit recaptures.

1982 Compared to 1981

Sales declined by $249.3 million, or 24.5%, and operating income dropped $68.7 million, or 90%. All businesses shared in the declines, as the severe recession had an adverse effect on virtually all markets served by the Company. The largest volume declines were suffered by the metals businesses, with combined shipments 44% below 1981. Competition from low-priced imported products had a negative impact on the Company's markets, particularly in iron and steel and ferroalloys. In addition, translated sales of non-U.S. operations were $38 million lower in 1982 as a result of a weakening of foreign currencies in relation to the U.S. dollar.

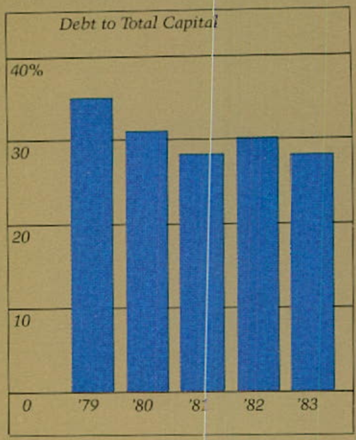
Operating losses were sustained in 1982 by the iron/steel and silicon metal/ferroalloys businesses. Reduced operating profits were registered by the remaining businesses, as operating volume levels were reduced to keep inventories in line with the low demand. The reduction in inventories caused a liquidation of LIFO (last-in, first-out) inventory layers which benefited 1982 income before taxes by $13.8 million. Strict cost controls and cost reduction measures implemented in 1982 were not sufficient to overcome the major losses of sales volume.

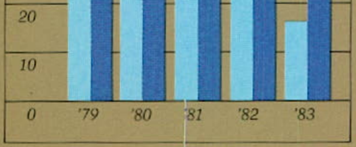
Income Taxes

The provision for income taxes was at the following effective rates:

1983	1982	1981
34.4%	3.8%	39.1%

Effective tax rates for these years are less than statutory rates primarily because of investment tax credits and United Kingdom





inventory tax credits. In 1982 these credits had a much greater impact on the effective rate because of the low level of income before taxes.

Financial Condition

Interlake's financial strength improved in 1983. The current ratio rose to 2.2/1 from 2.1/1 in 1982. Total debt was reduced by $9.7 million. As a result the total debt to total capitalization ratio declined to 28% (the 1981 level) after rising to 30% in 1982.

Funds provided from operations in 1983 increased $14 million from 1982's level and were more than adequate to provide for debt reductions, capital expenditures and dividends.

Capital expenditures totaled $16.5 million in 1983, down from $27.9 million in 1982 and $37.4 million in 1981. Depreciation expense totaled $24.0 million, $23.0 million and $26.0 million in 1983, 1982 and 1981, respectively. Expenditures in 1983 were primarily directed toward maintaining existing capacity, with $5.0 million expended on the expansion of facilities. Estimated future expenditures to complete projects already approved totaled $8.4 million at year-end 1983.

Dividends of $2.60 per share in 1983 continued at the 1982 level, up from $2.40 in 1981. Dividends declared in 1983 totaled $15.1 million as compared with $16.0 million in 1982 and $14.7 million in 1981. The Company repurchased 714,929 shares of its stock from the Madison Fund in November, 1982, for $19.9 million and placed them in the treasury. This action caused total dividends declared in 1983 to decline from 1982.

The Company's dividend reinvestment program provided $1.9 million in 1983 compared with $5.9 million in 1982 and $2.2 million in 1981. The decline in 1983 resulted from the discontinued reinvestment of dividends on the repurchased shares and on the remaining one million shares (previously held by the Madison Fund) which were acquired by other investors.

Shareholders' equity at December 25, 1983, of $327.4 million increased $4.2 million from year-end 1982. The increase was due primarily to the excess of 1983 net income over dividends paid, net of reinvestments. However, this gain was offset in part by adjustments from translating foreign currency financial statements at lower foreign exchange rates as measured in U.S. dollars. Since the adoption of Statement of Financial Accounting Standards No. 52 "Foreign Currency Translation" in 1981, there has been a downtrend in the value of most foreign currencies in relation to the U.S. dollar. As a result, the accumulated foreign currency translation adjustments deferred in the shareholders' equity section of the Company's balance sheet reached $32.5 million at the end of 1983.

Interlake has adequate capital resources to meet near-term projected operating requirements. In addition to the Company's capacity for long-term borrowings, the Company maintains revolving credit and short-term bank credit facilities of $132 million. At the end of 1983, $124 million of these credit facilities was unused.

Subsequent Event

On February 7, 1984, the Company purchased 500,000 shares of its common stock at $43.25 per share, or $21.6 million. These shares, which have been placed in the treasury, were owned by investors who had acquired them from the Madison Fund.

Change in Presentation

The Company adopted new financial statement formats in 1983. The Statement of Consolidated Income sets forth gross profit and distinguishes between operating income and non-operating items. The Consolidated Statement of Changes in Financial Position is presented on a cash basis; a working capital format was used in prior years. Certain prior year amounts have been reclassified to conform to the 1983 presentation.

Report of Management

The financial statements of Interlake, Inc. and consolidated subsidiaries, presented on pages 20 through 34 of this annual report, have been prepared by management, which is responsible for their accuracy and integrity. They have been prepared in conformity with generally accepted accounting principles on a basis consistent with that of the prior year, and include informed judgments and estimates, as required. Other financial information contained in this annual report is consistent with the financial statements.

Interlake maintains an extensive system of internal accounting controls and procedures designed to provide reasonable assurance, at a justifiable cost, as to the reliability of financial records and reporting and the protection of assets. This system consists, in part, of organizational arrangements with clearly defined lines of responsibility and delegation of authority. Internal accounting controls are continually modified as warranted by changing business conditions and are monitored by an internal audit staff through ongoing reviews and comprehensive audit programs.

Price Waterhouse, independent public accountants, is retained to examine Interlake's financial statements and to render an opinion as to the fairness of reported operating results and financial condition. Their accompanying report is based on an examination which included a review of Interlake's system of internal accounting controls to the extent they considered necessary to evaluate the system as required by generally accepted auditing standards.

The Audit Review Committee of the Board of Directors, which is composed solely of outside directors, evaluates on an ongoing basis the effectiveness of internal and external audits and reviews the nature and extent of the services provided by the company's independent public accountants. The Audit Review Committee also determines that management is fulfilling its financial responsibilities by meeting periodically with Price Waterhouse, the internal auditors and management to review accounting, auditing, internal accounting control and financial reporting matters. The internal auditors and independent accountants have free and complete access to the Audit Review Committee.

Interlake has adopted formal corporate policies demanding high standards of ethical and financial integrity and has disseminated these policies to appropriate employees. Specific internal controls and internal audit procedures have been developed to provide reasonable assurance that violations of these policies, if any, are detected.

W. Robert Reum
W. Robert Reum
Vice President—Finance
and Chief Financial Officer

Frederick C. Langenberg
Frederick C. Langenberg
Chairman and Chief
Executive Officer

Report of Independent Accountants

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 consolidated statement of changes in financial position present fairly the financial position of Interlake, Inc. and its subsidiaries at December 25, 1983 and December 26, 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 25, 1983, 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.

Chicago, Illinois
February 8, 1984

Price Waterhouse

Statement of Consolidated Income and Retained Earnings

For the Years Ended December 25, 1983, December 26, 1982, and December 27, 1981

	1983	1982	1981
	(in thousands except per share data)		
Net Sales	$835,041	$767,300	$1,016,605
Cost of products sold	681,856	647,411	820,689
Gross Profit	153,185	119,889	195,916
Selling and administrative expense	107,845	112,073	119,382
Operating Income	45,340	7,816	76,534
Interest expense	12,270	13,076	13,407
Interest income	(5,575)	(7,123)	(8,976)
Nonoperating (income) expense	(1,391)	(4,071)	(7,016)
Income Before Unusual Items, Taxes on Income and Minority Interest	40,036	5,934	79,119
Unusual Items	(2,100)	1,300	—
Income Before Taxes on Income and Minority Interest	37,936	7,234	79,119
Provision for Income Taxes	13,038	272	30,953
	24,898	6,962	48,166
Minority Interest in Net Income of Subsidiary	2,074	1,210	1,589
Net Income for the Year	$ 22,824	$ 5,752	$ 46,577
Net Income Per Share of Common Stock (based on average shares of 5,785,740 in 1983, 6,263,194 in 1982 and 6,134,310 in 1981)	$ 3.94	$ .92	$ 7.59

Retained Earnings at Beginning of Year	$261,202	$271,448	$ 239,606
Net Income for the Year	22,824	5,752	46,577
	284,026	277,200	286,183
Deduct—Cash Dividends Declared or Paid ($2.60 per share in 1983 and 1982, and $2.40 per share in 1981)	(15,060)	(15,998)	(14,735)
Retained Earnings at End of Year	$268,966	$261,202	$ 271,448

(See notes to consolidated financial statements)

Consolidated Balance Sheet

December 25, 1983 and December 26, 1982

Assets

	1983	1982
	(in thousands)	
Current Assets:		
Cash	$ 1,861	$ 6,649
Certificates of deposit	50,469	25,580
Receivables, less allowances of $3,057,000 in 1983 and $2,850,000 in 1982	162,180	120,941
Inventories	136,695	153,901
Other current assets	26,493	23,999
Total current assets	377,698	331,070
Investments and Other Assets:		
Investments in and advances to associated companies	23,668	35,489
Goodwill, less amortization	12,584	13,394
Other assets	12,956	15,603
	49,208	64,486
Property, Plant and Equipment, at cost:		
Land and coal properties, less depletion	9,266	9,716
Buildings	103,836	105,716
Equipment	470,186	462,134
Construction in progress	6,267	12,703
	589,555	590,269
Less—Depreciation and amortization	(342,531)	(330,033)
	247,024	260,236
Total Assets	$673,930	$655,792

Liabilities and Shareholders' Equity

	1983	1982
Current Liabilities:		
Accounts payable	$ 63,994	$ 59,948
Accrued liabilities	58,993	48,057
Accrued salaries and wages	19,510	17,620
Income taxes payable	19,822	13,672
Debt due within one year	12,519	15,882
Total current liabilities	174,838	155,179
Long-Term Debt	115,994	122,338
Other Long-Term Liabilities:		
Post-retirement benefits	22,235	19,206
Other	18,521	14,618
	40,756	33,824
Future Income Taxes	14,941	21,200
Commitments and Contingencies	—	—
Shareholders' Equity:		
Common stock, par value $1 per share, authorized 20,000,000 shares, issued—7,158,551 shares 1983 and 1982	122,331	120,537
Cost of common stock held in treasury (1,324,570 shares 1983 and 1,450,218 shares 1982)	(31,414)	(33,527)
Retained earnings	268,966	261,202
Accumulated foreign currency translation adjustments	(32,482)	(24,961)
	327,401	323,251
Total Liabilities and Shareholders' Equity	$673,930	$655,792

(See notes to consolidated financial statements)

Consolidated Statement of Changes in Financial Position
For the Years Ended December 25, 1983, December 26, 1982 and December 27, 1981

	1983	1982	1981
		(in thousands)	
Cash From (For) Operations:			
Net income	**$ 22,824**	$ 5,752	$ 46,577
Add (deduct) noncash items:			
Depreciation and amortization	**23,968**	22,956	25,976
Future income taxes	**(6,259)**	462	7,407
Other noncash items	**5,171**	2,580	(2,483)
	45,704	31,750	77,477
Cash From Working Capital (exclusive of debt)	**6,761**	16,582	3,690
Cash From Operations and Working Capital	**52,465**	48,332	81,167
Capital Expenditures	**(16,536)**	(27,864)	(37,393)
Disposals of Property, Plant and Equipment	**1,941**	774	3,568
Other Sources (Uses):			
Changes in exchange rates	**(3,758)**	(7,185)	(9,461)
All other	**8,812**	5,649	(533)
Cash Before Dividends	**42,924**	19,706	37,348
Dividends	**(15,060)**	(15,998)	(14,735)
Proceeds From Dividend Reinvestment Program	**1,944**	5,869	2,173
Cash Before Investments	**29,808**	9,577	24,786
Investments/Acquisitions	**—**	—	(9,896)
Divestitures	**—**	8,285	13,860
Cash Before Financing	**29,808**	17,862	28,750
Financing Increase (Decrease):			
Debt due within one year	**(3,363)**	4,593	(8,134)
Long-term debt	**(6,344)**	(5,243)	(6,402)
Purchase of treasury stock	**—**	(19,949)	—
Cash Increase (Decrease) (including certificates of deposit)	**$ 20,101**	$ (2,737)	$ 14,214

(See notes to consolidated financial statements)

Notes to Consolidated Financial Statements

For the Years Ended December 25, 1983, December 26, 1982 and December 27, 1981

Note 1
Summary of Significant Accounting Policies

Financial Statements

The Company adopted new financial statement formats in 1983. Certain prior year amounts have been reclassified to conform to the 1983 presentation.

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 $113,260,000 and $113,343,000, at December 25, 1983, and December 26, 1982, respectively.

During 1982, inventory quantities were reduced, resulting in a liquidation of LIFO inventory quantities carried at the lower costs which prevailed in prior years as compared with the cost of 1982 production. As a result, income before taxes was increased by $13,804,000, equivalent to $1.19 per share after applicable income taxes.

In 1983, 1982 and 1981 the Company made raw material purchases of $41,983,000, $42,075,000 and $76,106,000, respectively, from affiliated iron ore and coal mining interests. Amounts due to affiliated companies for such raw material purchases were $17,693,000, $15,430,000 and $20,005,000 at December 25, 1983, December 26, 1982, and December 27, 1981, respectively.

December 25, 1983 and December 26, 1982 inventory amounts by category were:

	1983	1982
Raw materials	**$ 48,154,000**	$ 57,366,000
Semi-finished and finished products	**68,943,000**	75,174,000
Supplies	**19,598,000**	21,361,000
	$136,695,000	$153,901,000

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. In the third quarter of 1982, the Company extended the use of the straight-line lapsing method of calculating depreciation expense to certain fixed assets formerly depreciated under the straight-line composite method. Management believes that the straight-line lapsing method will more accurately charge depreciation over the remaining useful lives of these assets and is consistent with the method used principally for the Company's other fixed assets. This action increased 1982 net income by $1.5 million, or $.24 per share.

Upon sale or disposal of property, plant and equipment, the asset cost and related accumulated depreciation are removed from the accounts, and any gain or loss on the disposal is credited or charged to income.

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

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 1981, the Company adopted Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation." This Statement provides that translation gains and losses which do not affect cash flows are deferred in a separate component of shareholders' equity entitled "accumulated foreign currency translation adjustments." Upon sale or liquidation of an investment in a foreign entity, the deferred amount attributable to that entity is reported as part of the gain or loss on the sale or liquidation.

An analysis of the changes to this account during 1983 and 1982 is as follows:

	1983	1982
Beginning balance	**$(24,961,000)**	$(12,992,000)
Adjustments from translating foreign currency financial statements at current rates	**(7,521,000)**	(11,969,000)
Balance at fiscal year-end	**$(32,482,000)**	$(24,961,000)

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 1981, the Company entered into several agreements to purchase tax benefits through tax leases. Such tax benefits have resulted in gains of $447,000, $421,000 and $679,000 included in 1983, 1982 and 1981 net income, respectively. The current liability for income taxes payable at December 25, 1983, and December 26, 1982, has been reduced by $3,635,000 and $4,029,000, respectively, for such tax benefits.

Retirement Benefits

The Company has various pension plans which cover substantially all employees. The provision for pension costs includes current costs, amortization of unfunded prior service costs over periods not exceeding twenty-five years, and interest on unfunded prior service costs. The Company's policy is to fund not less than the minimum funding required under ERISA. The Company also has post-retirement health care and death benefit plans covering certain retired employees. The provision for post-retirement costs includes current costs, amortization of prior service costs over periods not exceeding twenty-five years and interest on the accrued liability.

Note 2 Analysis of Changes in Working Capital

Within the Consolidated Statement of Changes in Financial Position, the cash from (for) working capital (exclusive of debt) was comprised of:

	1983	1982	1981
	(in thousands)		
Cash From (For)			
Receivables	**$(41,239)**	$ 25,303	$22,918
Inventories	**17,206**	17,544	(7,739)
Other current assets	**(2,494)**	(4,440)	(3,647)
Accounts payable and other accrued liabilities	**16,872**	(20,551)	(6,914)
Income taxes payable	**6,150**	(1,274)	(928)
Reclassification of accounts payable to affiliate	**10,266**	—	—
	$ 6,761	$ 16,582	$ 3,690

In 1983, the Company reclassified a portion of accounts payable to Wabush Iron Company Limited from current to noncurrent (as a reduction of investment in associated companies) based on the determination by Wabush Iron's management that such amounts would not be collected from venture participants for an indefinite period of time (see Note 12). This reclassification had no effect on cash.

Note 3 Long-Term Debt and Credit Arrangements

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

	December 25, 1983	December 26, 1982
	(in thousands)	
8.8% Debentures, due annually $2,500,000 in 1984 to 1995, and $5,000,000 in 1996	**$ 30,759**	$ 32,229
8½% Senior Notes, due annually $3,000,000 1984 through 1998	**45,000**	45,000
Obligations under long-term lease agreements	**15,050**	15,600
13% Notes payable, due annually in varying installments from 1984 to 1992	**9,844**	10,566
Pollution control and industrial development loan agreements	**17,350**	18,350
Other	**2,324**	3,003
	120,327	124,748
Less—current maturities	**4,333**	2,410
	$115,994	$122,338

At December 25, 1983, 8.8% debentures with a face value of $4,241,000 were held in the treasury by the Company. $2,500,000 of these may be used in meeting the 1984 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 are due 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 7⅛%. Principal payments of $1,700,000 and $3,500,000 are to be made in 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 1983, after giving effect to debentures held by the Company and available for sinking fund requirements, are as follows:

1984	1985	1986	1987	1988
$4,333,000	$5,194,000	$7,235,000	$8,049,000	$7,299,000

The Company maintains formal and informal, domestic and foreign, intermediate and short-term bank credit facilities of $132,000,000 against which $8,186,000 was borrowed at December 25, 1983. 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 credit facilities, 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 4 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 56,063 shares or $1,944,000 in 1983, 220,596 shares or $5,869,000 in 1982 and 64,999 shares or $2,173,000 in 1981.

On November 24, 1982, the Company and certain designees purchased 1,714,929 shares of Interlake common stock from the Madison Fund, Inc. for $28.00 per share. The Company acquired 714,929 of these shares and these were held in the treasury at December 25, 1983 and December 26, 1982.

On February 7, 1984, the Company purchased 500,000 shares of Interlake common stock for $43.25 per share.

Note 5 Stock Incentive Plans

The Company's 1975 stock option plan (as amended through 1982) provides for the granting of options for the purchase of common stock to officers and other key employees at prices not less than fair market value at the dates of grant. Such options may be incentive stock options (which are intended to qualify for favorable federal income tax treatment to the optionee), non-qualified stock options (which are intended not to so qualify), or combinations of the foregoing. A maximum of 650,000 shares may be granted under the plan until December 31, 1984. Options become exercisable at various times and are exercisable cumulatively in various installments. Incentive stock options may be exercised until five years have elapsed from the date of grant and non-qualified options may be exercised until ten years have elapsed. 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.

Changes in common shares under option for the three years are summarized as follows:

	1983		1982		1981	
	Option Shares	**Average Option Price**	Option Shares	Average Option Price	Option Shares	Average Option Price
Stock Options:						
Outstanding—beginning of year	**364,012**	**$29.95**	283,337	$30.94	263,814	$28.93
Granted	**167,150**	**39.94**	94,450	26.84	47,650	40.25
Exercised	**(54,941)**	**26.24**	(1,674)	24.76	(5,062)	25.09
Surrendered for exercised S.A.R.s	**(69,450)**	**26.53**	(4,899)	27.39	(8,214)	26.89
Canceled or expired	**(58,615)**	**34.78**	(7,202)	30.81	(14,851)	29.39
Outstanding—end of year	**348,156**	**35.20**	364,012	29.95	283,337	30.94
Exercisable—end of year	**147,965**	**32.43**	217,761	30.22	173,689	30.17
Available for grant	**117,757**		226,292		313,540	

Treasury shares issued for exercised stock appreciation rights totaled 9,671 in 1983, 376 in 1982 and 1,055 in 1981. The Stock Awards Plan resulted in the awarding of 19,350 shares in 1983, 21,750 shares in 1982 and 18,600 shares in 1981 with total market value at dates awarded of $649,000, $701,000 and $571,000, respectively. During 1983, 14,377 shares were received from employees in payment for exercise of stock options.

Note 6 Retained Earnings

As of December 25, 1983, the Company can pay cash dividends and/or repurchase the Company's capital stock in amounts up to $80,900,000 under the most restrictive terms of the Company's various loan agreements.

Note 7 Unusual Items

In the fourth quarter of 1983, a pretax provision of $10.5 million was recorded for the estimated costs to restructure certain materials handling operations in Europe. These costs included losses on disposition of assets, and personnel and other costs. The provision was equivalent to $.75 per share after applicable income taxes.

In 1983 and 1982, favorable pretax adjustments of $8,400,000 and $1,300,000, respectively, were made to the 1980 and 1978 shutdown/disposal provisions. Primarily, these adjustments reflect current determinations of employee post-retirement costs and realization of proceeds from the sale of facilities. These adjustments were equivalent to $.94 and $.20 per share in 1983 and 1982, respectively, after applicable income taxes.

Note 8 Retirement Benefits

Pension costs totaled $7,780,000, $16,256,000 and $19,553,000 in 1983, 1982 and 1981, respectively. The decrease in pension expense in 1983 was due primarily to significantly improved performance by pension fund assets, an increase in the assumed rate of return on investments from 7% to 8%, and the merger of two plans. The decrease in 1982 was due primarily to a change in retirement age assumptions and the immunization of liabilities for certain retired employees through purchase of a dedicated bond portfolio.

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

	December 25, 1983	December 26, 1982
	(in thousands)	
Actuarial present value of accumulated plan benefits		
Vested	**$177,400**	$168,400
Non-vested	**2,200**	2,500
	$179,600	$170,900
Net assets available for plan benefits	**$285,400**	$260,100

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8% for 1983 and 1982.

As of the most recent actuarial valuation, the pension plan assets for the Company's foreign pension plans exceeded the actuarial value of vested benefits.

The Company also provides health care and death benefits for certain retired employees. The provision for such plans included in operating costs was $3,612,000, $3,117,000 and $2,749,000 in 1983, 1982 and 1981, respectively.

Note 9
Income Taxes

The provisions for taxes on income consist of:

	1983	1982	1981
		(in thousands)	
Current:			
U.S. Federal	**$10,251**	$ (692)	$13,863
State	**2,353**	529	3,103
Foreign	**5,899**	3,932	9,622
Total	**18,503**	3,769	26,588
Deferred:			
U.S. Federal	**(4,471)**	(2,744)	5,312
State	**—**	—	—
Foreign	**(994)**	(753)	(947)
Total	**(5,465)**	(3,497)	4,365
Tax Provision	**$13,038**	$ 272	$30,953

The U.S. Federal income tax provisions were reduced by investment tax credits, net of recapture, of $1,649,000 in 1983, $3,079,000 in 1982 and $2,409,000 in 1981.

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:

	1983	1982	1981
		(in thousands)	
Excess of tax over book depreciation	**$(12,296)**	$ 21,431	$ 6,888
Restructure of European operations	**(6,176)**	—	—
Benefit on plant closings	**5,575**	(1,038)	(1,529)
Sale of interest in joint venture	**5,173**	(13,056)	—
Equity in earnings of affiliated companies	**3,036**	(1,225)	(680)
Foreign translation and hedge contracts	**580**	1,646	(1,959)
Retirement benefit costs	**242**	(9,367)	2,733
All other net	**(1,599)**	(1,888)	(1,088)
	$ (5,465)	$ (3,497)	$ 4,365

The effective income tax rates for 1983, 1982 and 1981 are reconciled to the federal statutory tax rate in the following table:

	1983	1982	1981
Statutory federal income tax rate	**46.0%**	46.0%	46.0%
Increase (reduction) in taxes resulting from:			
Investment tax credit	**(4.3)**	(42.6)	(3.0)
Restructure of European operations	**(3.5)**	—	—
Capital gains	**(2.8)**	—	(.9)
Excess percentage over cost depletion	**(2.7)**	(3.4)	(2.2)
Tax effect of U. K. stock relief	**(2.5)**	(11.3)	(2.4)
Earnings attributable to affiliated companies	**(2.3)**	2.2	(1.6)
Adjustment of available tax reserves	**(1.1)**	(5.5)	—
Purchased tax lease benefits	**(.5)**	(2.7)	(.4)
Taxes on foreign income before stock relief	**3.6**	14.6	1.1
State income taxes	**3.4**	4.0	2.1
All other net	**1.1**	2.5	.4
	34.4%	3.8%	39.1%

The amounts included in consolidated income before taxes on income which represent income of foreign operations were $8,878,000, $5,723,000 and $20,536,000 for 1983, 1982 and 1981, respectively.

As of December 25, 1983, U.S. Federal income tax returns for the years 1979 through 1981 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 $76,004,000 of unremitted earnings of foreign subsidiaries, considered to be indefinitely reinvested at December 25, 1983.

Note 10 Commitments and Contingencies

The Company's interest in two iron ore mining joint ventures requires payment of its proportionate share of all fixed operating costs, regardless of the quantity of ore received, plus the variable operating costs of minimum ore production for the Company's account. Normally, the Company reimburses the joint venture companies for these costs through its purchases of ore at the higher of cost or market prices.

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.

Note 11 Business Segment Information

The Company operates in six business segments; four in metals and two in materials 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 business segment for the years 1983, 1982 and 1981.

Sales between business segments are primarily priced at market value for metal products and at distributor prices for materials handling products. Operating profit consists of net sales of the segment less all costs and expenses related to the segment. 'Corporate items' includes net interest expense and other items which are not related to business segments.

The operating results of certain segments were increased (decreased) by the following exceptional items:

	Iron/ Steel	Investment/ Die Castings	Matl. Hdlg./ Stor. Prod.	Packaging	All Other
			(in millions)		
1983					
Provision for restructure of European operations	**$ —**	**$ —**	**$(10.5)**	**$ —**	**$ —**
Shutdown/disposal provisions	**8.4**	**—**	**—**	**—**	**—**
Pension expense adjustment	**4.9**	**.4**	**.9**	**.9**	**.5**
	$13.3	**$ .4**	**$ (9.6)**	**$ .9**	**$ .5**
1982					
Liquidation of LIFO inventory quantities	$ 6.6*	$ —**	$ 1.4	$3.9	$ .3
Shutdown/disposal provisions	1.3	—	—	—	—
Plant closings and relocations	—	(3.6)	(1.0)	—	—
Depreciation adjustments	2.4	—	.4	—	—
	$10.3	$(3.6)	$ .8	$3.9	$ .3

*Excludes $1.0 million included in the 'shutdown/disposal provisions' caption.
**Excludes $.6 million included in the 'plant closings and relocations' caption.

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

The Company's interest in iron ore mining joint ventures in Minnesota and Labrador, Canada, and a coal mining joint venture in West Virginia are accounted for by the equity method within the iron and steel segment.

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 materials handling segments, are made at prices which approximate the prices of similar items sold to distributors. Operating profit by geographic area is the difference between net sales attributable to the area and all costs and expenses related to the geographic area. 'Corporate items' includes net interest expense and other items which are not related to geographic areas. Export sales to unaffiliated customers included in the United States' sales are not material.

'All other foreign' includes operations in Canada and Australia.

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

Information About the Company's Business Segments

		Net Sales						
	Year	Customers(a)	Affiliates	Operating Profit (Loss)(b)	Assets at Year-End(c)	Depreciation and Amortization	Capital Expenditures
				(in millions)			
Iron/Steel	**1983**	**$ 194.4**	**$46.5**	**$17.7**	**$174.0**	**$ 8.7**	**$ 2.0**
	1982	149.5	46.7	(12.7)	189.0	8.3	3.5
	1981	274.3	69.9	19.3	210.0	11.5	6.7
Metal Powders	**1983**	**90.3**	**—**	**20.4**	**85.7**	**3.4**	**3.1**
	1982	71.0	—	12.1	84.7	3.2	6.7
	1981	87.7	—	16.9	83.0	3.0	4.2
Investment/Die Castings	**1983**	**99.5**	**—**	**9.2**	**68.0**	**2.9**	**2.9**
	1982	95.0	—	3.7	65.1	2.6	5.2
	1981	108.5	—	14.1	66.3	1.9	8.9
Silicon Metal/Ferro-alloys	**1983**	**71.5**	**.4**	**(2.8)**	**53.7**	**2.2**	**.7**
	1982	54.9	.2	(3.4)	46.8	2.3	1.4
	1981	95.4	.3	8.9	54.3	2.2	3.4
Material Handling/Storage Products	**1983**	**223.9**	**—**	**(12.7)**	**134.8**	**5.1**	**4.2**
	1982	253.7	—	2.1	147.5	5.2	7.7
	1981	277.4	—	9.7	164.1	5.8	7.4
Packaging	**1983**	**155.4**	**1.4**	**11.7**	**68.2**	**1.8**	**3.6**
	1982	143.2	1.1	9.9	69.5	1.5	3.4
	1981	173.3	1.7	13.2	78.8	1.4	6.8
Corporate Items/Eliminations	**1983**	**—**	**(48.3)**	**(5.6)**	**89.5**	**(.1)**	**—**
	1982	—	(48.0)	(4.5)	53.2	(.1)	—
	1981	—	(71.9)	(3.0)	53.7	.2	—
Consolidated	**1983**	**835.0**	**—**	**37.9**	**673.9**	**24.0**	**16.5**
	1982	767.3	—	7.2	655.8	23.0	27.9
	1981	1,016.6	—	79.1	710.2	26.0	37.4

		1983	1982	1981
(a) Includes sales in Iron/Steel operations of:	Iron Products . .	**$ 66.4**	$ 46.0	$108.3
	Steel Products . .	**128.0**	103.5	166.0
(b) Includes equity in earnings of unconsolidated affiliates of:	Iron/Steel	**4.0**	1.7	13.2
(c) Includes investment in unconsolidated affiliates of:	Iron/Steel	**23.7**	35.5	43.7
	Packaging	**—**	—	.3

Information About The Company's Operations By Geographic Areas

	Year	Net Sales: Customers	Net Sales: Inter-geographic	Operating Profit (Loss)	Assets at Year-End
			(in millions)		
United States	**1983**	**$ 624.5**	**$ 2.8**	**$ 45.4**	**$438.8**
	1982	539.2	2.6	5.9	429.7
	1981	754.8	3.4	59.5	472.9
Western Europe	**1983**	**143.1**	**.2**	**(10.3)**	**95.9**
	1982	159.6	.5	(1.8)	115.2
	1981	182.6	.6	9.4	125.6
All Other Foreign	**1983**	**67.4**	**.2**	**8.5**	**49.7**
	1982	68.5	.2	7.0	57.7
	1981	79.2	—	12.7	58.0
Corporate Items/ Eliminations	**1983**	**—**	**(3.2)**	**(5.7)**	**89.5**
	1982	—	(3.3)	(3.9)	53.2
	1981	—	(4.0)	(2.5)	53.7
Consolidated	**1983**	**835.0**	**—**	**37.9**	**673.9**
	1982	767.3	—	7.2	655.8
	1981	1,016.6	—	79.1	710.2

Note 12 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:

	1983	1982	1981
		(in thousands)	
Working capital	**$ 45,907**	$ 46,336	$ 97,661
Property, plant and equipment, net of depreciation and depletion	**169,588**	185,780	195,277
Other assets	**73,047**	73,813	13,440
Long-term liabilities	**80,580**	89,567	94,564
Stockholders' equity	**207,962**	216,362	211,814
Revenues	**269,538**	258,092	467,557
Net income	**41,942**	17,895	114,871
Interlake's equity in net income, after consolidating eliminations	**9,336**	2,745	12,729

The 1982 figures have been restated to reflect changes reported by Wabush Iron Company Limited. The most significant change was the reclassification of $59.4 million from "currently receivable from partners" to "long-term receivables", based on a determination by Wabush management that such amounts would not be requested for payment for an indefinite period of time.

Note 13
Quarterly Results
(Unaudited)

Quarterly results of operations for 1983 and 1982 were as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in millions except per share data)			
1983				
Net sales	**$197.9**	**$206.0**	**$201.3**	**$229.8**
Gross profit	**31.3**	**34.6**	**40.4**	**46.9**
Income before taxes on income and minority interest	**2.4**	**7.1**	**12.1**	**16.3**
Net income—Amount	**.9**	**3.6**	**6.8**	**11.5**
—Per share	**.15**	**.62**	**1.18**	**1.99**
1982				
Net sales	$205.7	$198.2	$183.1	$180.3
Gross profit	32.5	30.0	29.3	28.1
Income(loss) before taxes on income and minority interest	4.3	1.6	1.4	(.1)
Net income—Amount	2.8	1.1	1.4	.5
—Per share	.45	.17	.22	.08

Pension expense adjustments increased net income in the third and fourth quarters of 1983 by $1.7 million and $2.4 million, respectively (see Note 8).

Net income in the fourth quarter of 1983 included a provision of $4.3 million for the estimated costs to restructure certain materials handling operations in Europe (see Note 7).

Adjustment of the 1980 and 1978 shutdown/disposal provisions increased fourth quarter 1983 net income by $5.4 million (see Note 7).

Net income in the fourth quarter of 1982 included charges of $1.0 million each for the divestiture of a European marketing operation and the closure of an investment casting plant (and relocation of certain of its equipment). Net income in the third quarter of 1982 included a charge of $1.4 million for the closure of a die casting plant (and relocation of certain of its equipment).

Liquidations of LIFO inventory quantities in the third and fourth quarters of 1982 increased net income by $1.5 million and $6.0 million, respectively (see Note 1).

Net income in the first quarter of 1982 was increased by $1.3 million for adjustments of the 1978 and 1980 shutdown/disposal provisions (see Note 7).

Depreciation adjustments in the third and fourth quarters of 1982 increased net income by $1.1 million and $.4 million, respectively (see Note 1).

Selected Financial Data

	1983	1982	1981	1980	1979
	(in thousands of dollars except per share data)				
For the Year					
Net sales	**$835,041**	$767,300	$1,016,605	$1,055,883	$1,104,588
Income before unusual items and taxes on income	**$ 40,036**	$ 5,934	$ 79,119	$ 57,553	$ 45,177
Unusual items	**(2,100)**	1,300	—	(37,000)	—
Income before taxes on income	**37,936**	7,234	79,119	20,553	45,177
Provision for income taxes	**13,038**	272	30,953	5,998	3,129
	24,898	6,962	48,166	14,555	42,048
Minority interest in net income of subsidiary	**2,074**	1,210	1,589	737	2,313
Net income	**$ 22,824**	$ 5,752	$ 46,577	$ 13,818	$ 39,735
Net income per common share	**$ 3.94**	$ .92	$ 7.59	$ 2.29	$ 6.66
Cash dividends per common share	**2.60**	2.60	2.40	2.20	2.20
At Year End					
Working capital					
—amount	**$202,860**	$175,891	$ 199,803	$ 181,145	$ 162,270
—current ratio	**2.2 to 1**	2.1 to 1	2.2 to 1	2.0 to 1	1.7 to 1
Total assets	**$673,930**	$655,792	$ 710,217	$ 703,618	$ 733,559
Long-term debt, less current maturities	**115,994**	122,338	126,618	133,020	135,503
Common shareholders' equity					
—amount	**327,401**	323,251	358,748	336,707	333,981
—per common share	**56.12**	56.63	58.06	55.30	55.64

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 traditional financial information. In compliance with these requirements, 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). Under FASB Statement No. 70, constant dollar disclosures for net income, net income per share and net assets are not required for an enterprise with significant foreign operations.

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 determined primarily by reference to appraisals and 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 25, 1983
(in thousands)

Net income as reported	$ 22,824
Current cost adjustments:	
—cost of goods sold	(712)
—depreciation and amortization expense	(21,437)
Net income (loss) in current cost	$ 675
Gain from decline in purchasing power on net amounts owed	$ 3,570
Increase in general price level of inventories and property, plant and equipment held during the year	$ 23,017
Effect of increase in current cost*	10,219
Excess of increase in the general price level over the increase in current cost	$ 12,798
Aggregate foreign currency translation adjustment as reported	$ (7,521)
—in current cost	$(10,354)

*At December 25, 1983 current cost of inventory was $250.0 million and current cost of property, plant and equipment, net of accumulated depreciation was $419.9 million.

The current cost adjustments to reported income reflect the effect of price changes of specific 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 current costs, reflecting assets with relatively long lives.

No adjustment was made 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

	1983	1982	1981	1980	1979
	(dollar amounts in thousands except per share data)				
Net sales					
—as reported	**$835,041**	$767,300	$1,016,605	$1,055,883	$1,104,588
—in constant dollars	**835,041**	791,709	1,113,638	1,276,643	1,516,141
Net income (loss)					
—as reported	**22,824**	5,752	46,577	13,818	39,735
—in current cost	**675**	(31,338)	26,330	(38,409)	21,500
Net income (loss) per common share					
—as reported	**3.94**	.92	7.59	2.29	6.66
—in current cost	**.12**	(5.00)	4.29	(6.36)	3.60
Cash dividends per common share					
—as declared	**2.60**	2.60	2.40	2.20	2.20
—in constant dollars	**2.60**	2.68	2.63	2.66	3.02
Market price per common share at year-end					
—as reported	**44.25**	31.25	33.88	27.75	25.00
—in constant dollars	**43.49**	31.76	35.91	32.05	32.45
Net assets at year-end					
—as reported	**327,401**	323,251	358,748	336,707	333,981
—in current cost	**603,583**	635,529	719,966	732,650	816,556
Aggregate foreign currency translation adjustments					
—as reported	**(7,521)**	(11,969)	(15,575)		
—in current cost	**(10,354)**	(15,879)	(22,292)		
Gain from decline in purchasing power on net amounts owed	**3,570**	5,305	11,981	22,810	26,713
Excess of increase in the general price level over the increase in current cost	**12,798**	12,302	11,616	35,982	31,210
Average consumer price index (1967=100.0)	**298.4**	289.2	272.4	246.8	217.4

In 1982 and 1980, liquidation of LIFO inventory quantities required an adjustment to current cost of goods sold of $13.2 million and $18.6 million, respectively, in 1983 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.

Adjustments to the current cost information to reflect the effects of general inflation are based on the U.S. CPI (U).

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 shares of estimated mineral reserves of these joint ventures as of December 25, 1983, were approximately 145 million net tons of iron ore and 15 million net tons of metallurgical coal. In 1983 the price per ton for this iron ore and coal was $35.46 and $45.07, respectively. This information alone is not meaningful without due consideration of the significant and ever-increasing costs of extraction, processing, shipping and associated capital expenditures.

Market for Interlake's Common Stock and Related Stockholder 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 25, 1983, the number of record holders of the Company's common stock was approximately 16,000.

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

	1983			1982		
	Sales Price		**Per Share Cash Dividends**	Sales Price		Per Share Cash Dividends
	High	**Low**	**Paid**	High	Low	Paid
Calendar Quarter Ended						
March 31	**$38**	**$31¾**	**$.65**	$35½	$28	$.65
June 30	**37⅞**	**34**	**.65**	29½	22½	.65
September 30	**44¼**	**36½**	**.65**	27¾	23¾	.65
December 31	**44¾**	**41**	**.65**	34	26⅛	.65

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 6 of Notes to Consolidated Financial Statements.

Officers, Directors and Operating Executives

Officers

Frederick C. Langenberg
Chairman and
Chief Executive Officer

Edward D. Hopkins
President and
Chief Operating Officer

Raymond T. Anderson
Treasurer

David R. Downs
Vice President—
Human Resources

H. Harry Henderson
Vice President—
Marketing and Public Affairs

Grant L. Johnson
Senior Vice President
and General Counsel

Ian R. MacLeod
Secretary

Richard I. Polanek
Controller

W. Robert Reum
Vice President—
Finance and
Chief Financial Officer

Operating Executives

H. Lewis Biggerstaff
President,
Arwood Die Casting Division

Bruno Botti
President,
Duradyne Technologies, Inc.

Alfred D. Gate
President,
Globe Metallurgical
Division

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

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

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

Alfred G. Ward
President,
Acme Packaging Division

Ian A. White
President,
Hoeganaes Corporation

Directors

Keith S. Benson,
Director and
Retired Executive
Vice President—
Administration and Finance,
Oglebay Norton Company
(mining, sales and transportation of iron ore, silica sand, coal and other minerals) [1966]

Eugene P. Berg,
Chairman,
Automatic Spring Coiling
Company (manufacturer of precision mechanical springs) [1964]

Edward D. Hopkins,
President and
Chief Operating Officer,
Interlake, Inc. [1983]

Frederick C. Langenberg,
Chairman of the Board and
Chief Executive Officer,
Interlake, Inc. [1979]

Reynold C. MacDonald,
Retired Chairman
of the Board,
Interlake, Inc. [1967]

William G. Mitchell,
President,
Centel Corporation
(communications and electric services, manufacturer of equipment for communications industry)[1984]

Louis Putze,
Retired Vice President
and Director, Rockwell
International Corporation
(manufacturer of products for automotive, electronic, aerospace and general industries businesses) [1962]

Erwin E. Schulze,
President and
Chief Operating Officer,
The Ceco Corporation
(manufacturer of building products and provider of concrete forming services for the construction industry) [1981]

Lee C. Shaw,
Partner, Seyfarth, Shaw,
Fairweather and Geraldson
(law firm) [1949]

Edward J. Williams,
Chairman, President and
Chief Executive Officer,
McGraw-Edison Company
(manufacturer of electrical and mechanical products and related services for industrial applications) [1964]

Morris H. Wright,
Advisory Director,
Lehman Brothers Kuhn Loeb
Incorporated (investment banking firm) [1963]

Brackets indicate the year when an individual became a director.

Directors serve on one or more of the following committees: Audit Review, Compensation, Executive, Finance and Pension Review, Nominating.

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