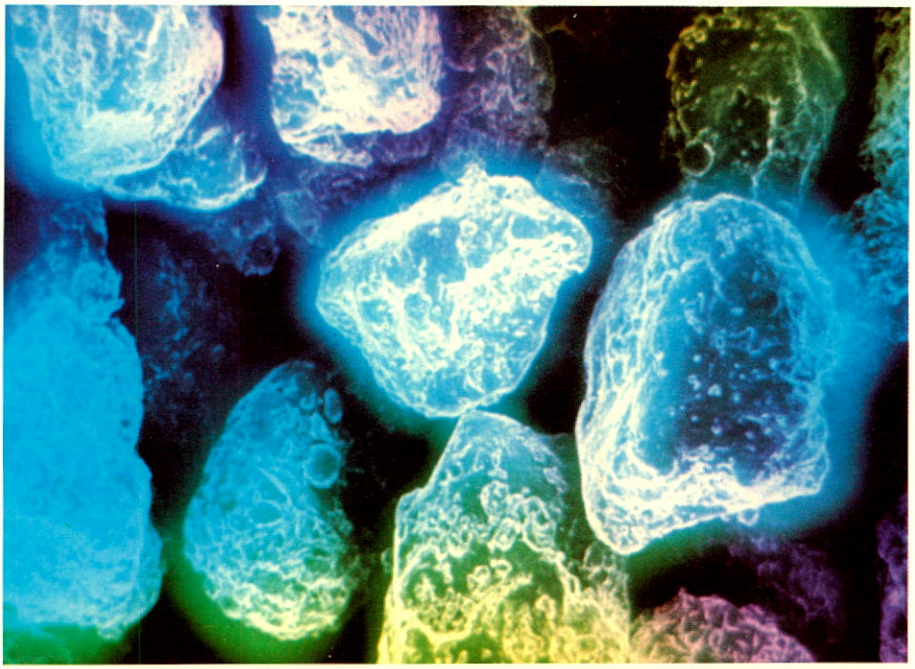
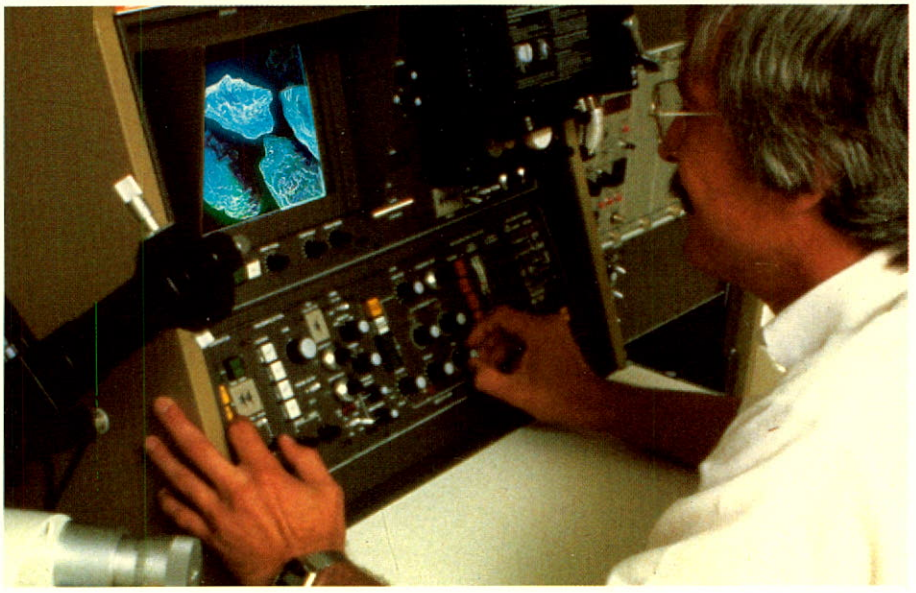
INTERLAKE, INC. ANNUAL REPORT 1984





Annual Meeting
Shareholders are invited to attend the Corporation's 1985 Annual Meeting at 10:00 A.M. (Pacific Standard Time) on Thursday, April 25, 1985, at the Westgate Hotel, 1055 Second Avenue, San Diego, California. Proxy statements will be mailed in the latter part of 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 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

Form 10-K Available
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.

Cover
Interlake is a world leader in ferrous metal powders by being technology driven. Characteristics of individual metal powder particles are explored with a Scanning Electron Microscope, one of our many advanced research laboratory instruments.

FINANCIAL HIGHLIGHTS

Interlake, Inc.

For The Year (in thousands)	**1984**	1983	1982
Net sales of continuing operations	**$845,087**	$763,549	$712,406
Income from continuing operations	**36,551**	24,390	7,577
Return on shareholders' equity	**11.5%**	7.1%	1.6%
At Year-End (in thousands)			
Current ratio	**2.0 to 1**	2.2 to 1	2.1 to 1
Total debt	**$122,294**	$128,513	$138,220
Shareholders' equity	**323,264**	327,401	323,251
Shares outstanding	**5,467**	5,834	5,708
Per Share Statistics			
Income from continuing operations	**$ 6.68**	$ 4.22	$ 1.21
Cash dividends declared or paid	**2.60**	2.60	2.60
Shareholders' equity at year-end	**59.13**	56.12	56.63

CONTENTS

TO OUR SHAREHOLDERS AND EMPLOYEES:

Interlake had a fine year in 1984 with significant and continued improvement in operating results. Return on investment rose to 10.5%, the highest in the last five years, and return on shareholders' equity climbed to 11.5%, the best in three years.

(Left) Frederick C. Langenberg, Chairman and Chief Executive Officer, Edward D. Hopkins, President and Chief Operating Officer

In addition, both earnings and sales were the highest since 1981. Income from continuing operations in 1984 was $36.6 million, or $6.68 per share, up 50% from $24.4 million, or $4.22 per share in 1983. Sales improved 11% to $845.1 million from $763.5 million.

For the fourth quarter of 1984, income from continuing operations was $9.6 million, or $1.76 per share. This performance was better than the quarterly average for 1984, but was exceeded by the $11.5 million, or $1.99 per share, for the fourth quarter of 1983. Sales in the fourth quarter were $200.1 million, compared to $207.6 million the previous year.

During 1984, cash from continuing operations grew by more than 60%, achieved through better operating efficiencies, close control of working capital as activity levels continued to increase, and effective cost controls. Selling and administrative costs, for example, were kept near 1983 levels, although sales increased by $81.5 million. Cash and cash equivalents amounted to $47.1 million at the end of 1984, compared to $52.3 million a year earlier. Interlake maintained a good cash position even after:

- ☐ Acquiring Chem-tronics, a manufacturer of jet engine components, for $52 million.
- ☐ Repurchasing company stock for $21.6 million.
- ☐ Repaying debt of $16.3 million.
- ☐ Funding $22.8 million of capital spending.
- ☐ Paying $11.6 million net in dividends to shareholders.

Quarterly dividend payments of $.65 per share were maintained by Interlake's directors during 1984. In addition, the Board of Directors increased its membership to 12 with the election of Dr. Arthur G. Hansen,Chancellor of the Texas A&M University System.

Cash flow and maintenance of a strong balance sheet have given Interlake the financial capability and flexibility needed for future growth. We are continuing to place considerable emphasis on strategic planning, and as part of this process in 1984 we took the following actions:

- ☐ Enlarged Interlake's commitment to the production of aerospace components with the acquisition of Chem-tronics and its patented chemical milling technology.

- ☐ Announced plans to construct a new investment casting plant in Groton, Connecticut, to supply large castings for present and future generation jet engines.
- ☐ Sold the Globe Metallurgical Division, a producer of silicon metal and ferroalloys, for book value.

In order to achieve its plans, Interlake regards certain activities as fundamental. New management development and manpower planning programs were instituted in 1984, aimed at attaining better planning and controls. We continue to stress improved productivity, quality and service to customers.

Interlake is a company with a materials orientation. We produce specialized industrial materials, or utilize materials to produce industrial products. We will emphasize state-of-the-art methods to create products custom tailored to market needs. We recognize that we must be competitive in our markets against all competition, foreign or domestic. The technology embodied in Interlake's products and processes is being extended through research, development, new applications and capital investment. Interlake is technology driven.

Interlake's strategic emphasis makes it appropriate to redefine our operations into four new business segments. They are composed of products which have a similar strategic focus. This report introduces these new segments as follows: Special Materials, Packaging and Handling, Primary Metals and Supplementary Products.

In 1985 we will continue to evaluate Interlake's current activities by their returns on investment, and we will aim for further operating efficiencies. We are confident that the contributions of Interlake employees to these goals will strengthen our competitiveness.

Frederick C. Langenberg
Chairman and Chief Executive Officer

Edward D. Hopkins
President and Chief Operating Officer

March 1, 1985

INTERLAKE:
A TECHNOLOGY DRIVEN COMPANY

Interlake is a company with a materials orientation. We produce specialized industrial materials, or utilize materials to produce industrial products. We will emphasize state-of-the-art methods to create products custom tailored to market needs. We recognize that we must be competitive in our markets against all competition, foreign or domestic. The technology embodied in Interlake's products and processes is being extended through research, development, new applications and capital investment. Interlake is technology driven.

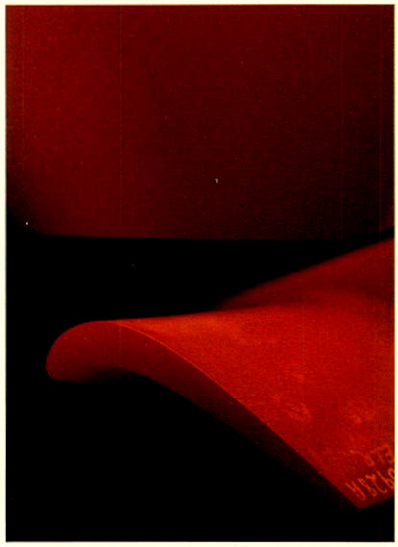
Interlake has gained a stronger competitive position by developing and using its technologies in unique production methods and advanced products.

An aerospace technology proprietary to Interlake is Unistructure®, currently employed in the production of jet engine ducts, cases and other components for missiles and jet aircraft. It is a patented, two-step chemical milling process used to etch a pattern of integral reinforcing ribs into metal plates. The ribs take the shape of miniature I-beams, a lightweight and strong design which cannot be produced by conventional methods.

Preparation of parts for chemical milling has been improved by coupling laser technology with automated computer control. A part to be chemically milled must be coated with a maskant—a chemically resistant plastic. Areas of the maskant are then outlined precisely and removed before processing. When done by hand, cutting the maskant is a demanding and time-consuming task. The automated method recently developed uses a low-powered laser, guided precisely by a computer program. This process shortens production time, improves precision and enhances quality.

An innovative forming technique led to the business of jet engine blade repair. The facility uses automatic electron beam welding and patented "hot creep forming" to restore the titanium blades to original condition.

Single crystal technology marks a significant improvement for the aerospace industry. We have a license to use the process to make state-of-the-art turbine blades, able to withstand extreme temperatures in the "hot section" of a jet engine.



(Far left) The first computer/laser applied to the chemical milling process. Before an aerospace component is chemically milled, a computer-guided laser cuts precise patterns in plastic maskant material. (Above) Automatic electron beam welding, performed within a sealed vacuum chamber, is used in the repair of titanium alloy jet engine fan blades. A patented forming process restores blades to their original contours. (Below) Single crystal jet turbine blades withstand heating and cooling cycles in a fatigue test.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Interlake technologies often advance when we sense a customer need . . . or that of a customer's customer. Developments in powder forging and "clean steel" are cases in point.

Interlake is a world leader in ferrous metal powders, which are sold to powder metal parts producers. When Interlake technology helps parts producers make powder forging more competitive, our metal powder sales benefit.

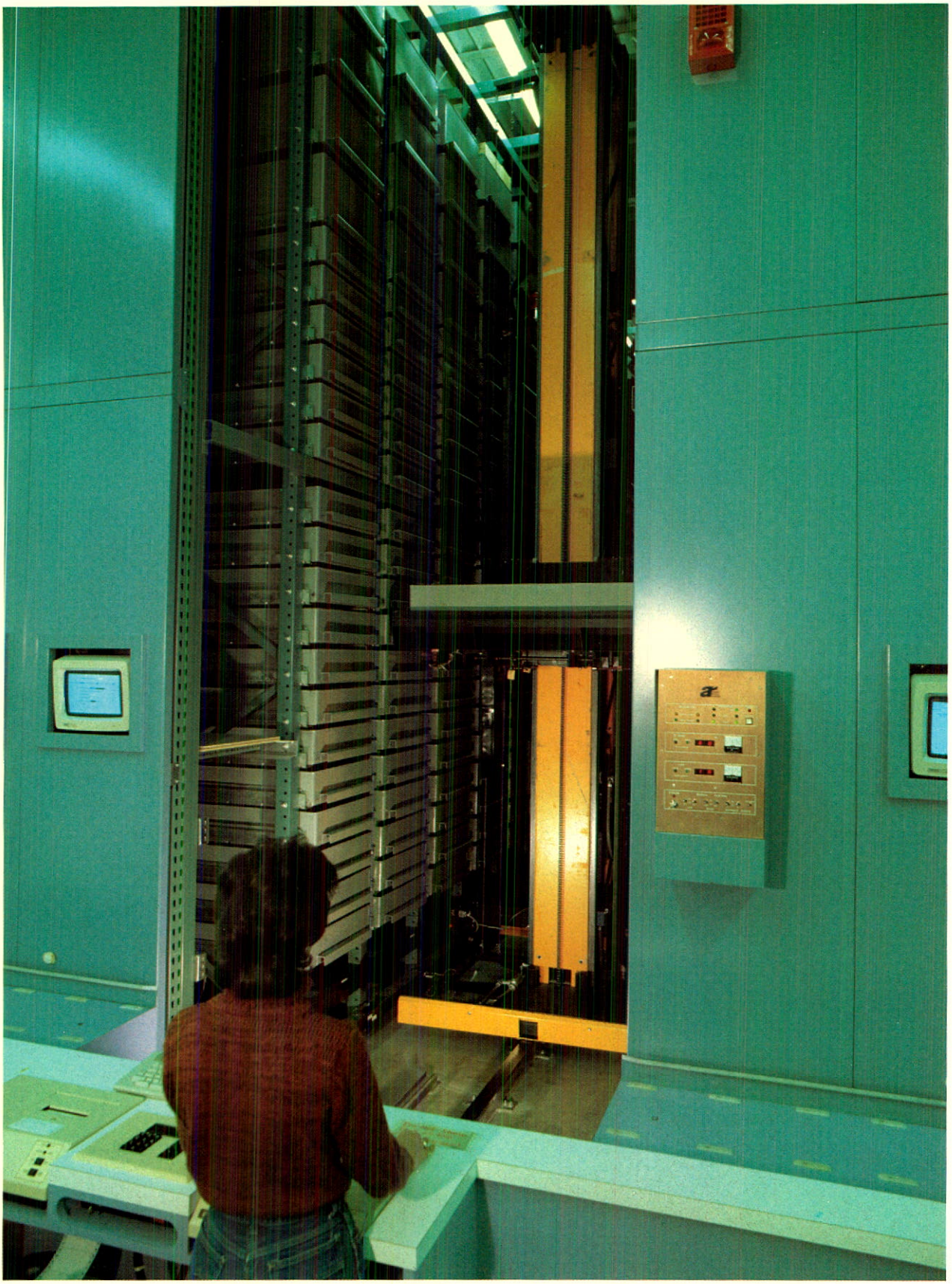
When metal powder is compressed, heated and forged, it can be turned into a complex, strong, near-net-shape part which requires little machine finishing. Powder forging is a developing parts-forming method which can offer lighter parts with better fatigue resistance than conventional forgings. Interlake's efforts are aimed at developing broader applications and a variety of shapes not previously available.

Several industries, including automotive, appliances, farm equipment and tools, are keeping a close watch on Interlake's recent advances in forged powder technology. Powder forged connecting rods, for example, can weigh 10 to 15% less than cast rods and can be shaped more accurately. One line of high-performance sports cars currently features powder forged connecting rods. A domestic automaker plans to introduce them in 1987 in a new four-cylinder engine. Automatic transmission torque converters will also incorporate powder forgings.

To encourage new powder forging applications, last year Interlake created a dedicated development facility near the Riverton, New Jersey, metal powder research laboratories. Equipped with a forging press and a protective atmosphere furnace, the facility makes prototype powder forgings for analysis by parts manufacturers and for new applications by end users. The powder forging equipment is supported by the well-equipped research lab.

All of Interlake's high carbon steel products meet demanding "clean steel" standards. Market demand for more ductile, weldable high carbon steel led to Interlake's recent introduction of a new manufacturing practice. The process occurs in the molten state, with chemical additions to remove impurities and minimize microscopic voids. Some demanding customers for Interlake hot rolled steel routinely cold roll it to thicknesses of 1/100 inch or less.

(Far left) Interlake is developing prototype forged powder metal parts for parts manufacturers and end users. The unusual geometry of this part would be difficult to produce by conventional forging and finish machining methods. (Above) Lighter, more fatigue resistant powder forged parts meet high-performance requirements. (Below) Superior ductility permits this $\frac{1}{100}$-inch-thick sheet rolled from Interlake "clean steel" to spring back to its original flat shape.



With the push of a few buttons, a supply clerk enters a code into an electronic keyboard. A remote Interlake Courier® silently moves deep into a storage aisle, pulls a tray of electronic parts and delivers it to a work station. The cycle is repeated hundreds of times, rapidly and efficiently, in an eight-hour shift.

Technically advanced systems like these are not merely step-savers. They are bringing life to new manufacturing concepts aimed at improving industrial productivity. "Just in time" and "flexible manufacturing" represent growth and change in the material handling business, and Interlake is introducing the latest innovative designs. We market material handling systems in the U.S. and, through Dexion Comino International, in more than 100 other countries.

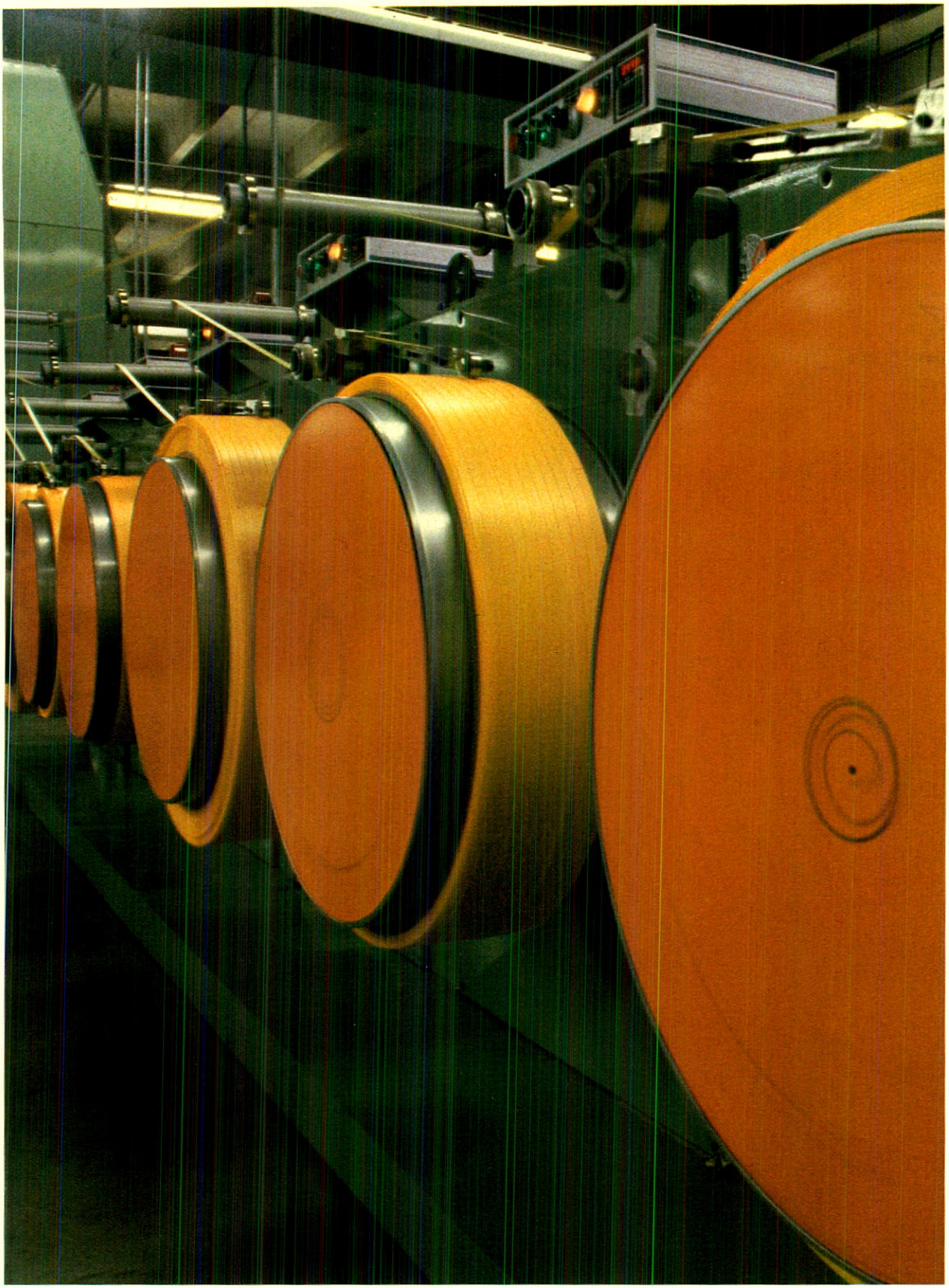
High-density storage and retrieval systems provide a compact, easily accessible way to keep small items organized. Mini-storage systems installed by Interlake in 1984 are now operating for two major U.S. electronics manufacturers.

Automated Guided Vehicles (AGVs), also introduced last year, bring an additional systems capability to the workplace. AGVs can be signaled electronically to deliver or collect materials from any of hundreds of locations. AGVs marketed by Interlake transport materials in a variety of shapes, sizes and weights as part of an integrated manufacturing or storage system.

Many complex, high-volume materials handling systems are designed around highly adaptable conveyors. Recent Interlake conveyor designs can provide high-speed sortation, variable-speed roller drives around turns and damage-free package accumulation.

These products reinforce Interlake's already strong competitive position as a material handling supplier. We can provide turnkey systems design and installation for all kinds of manufacturing, storage and handling projects. Computer Aided Design helps us improve accuracy while minimizing time and cost. We can even simulate the movements of a material handling system on a computer monitor in order to check physical clearances or refine a sequence of operating steps.

(Far left) High-density storage and retrieval systems help manufacturers improve the flow of smaller parts, tools and other critical items. (Above) Computer Aided Design shortens systems design and development time for products such as Automated Guided Vehicles. Computer software also allows us to simulate equipment in operation. (Below) A wide selection of Interlake conveyors (shown), storage rack and automated storage and retrieval equipment can be combined into systems tailored to a customer's needs.



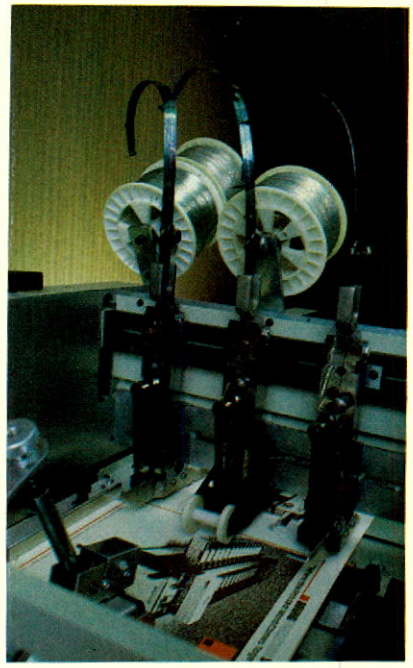
"Evolution" is as important as "revolution" in becoming more competitive. Industrial packaging is a field which particularly benefits from evolving technology.

Interlake virtually invented the steel strapping business, a market which has grown and matured. We have long since broadened our packaging product lines into non-metallic strapping and increasingly sophisticated packaging systems in the U.S., Canada and Europe.

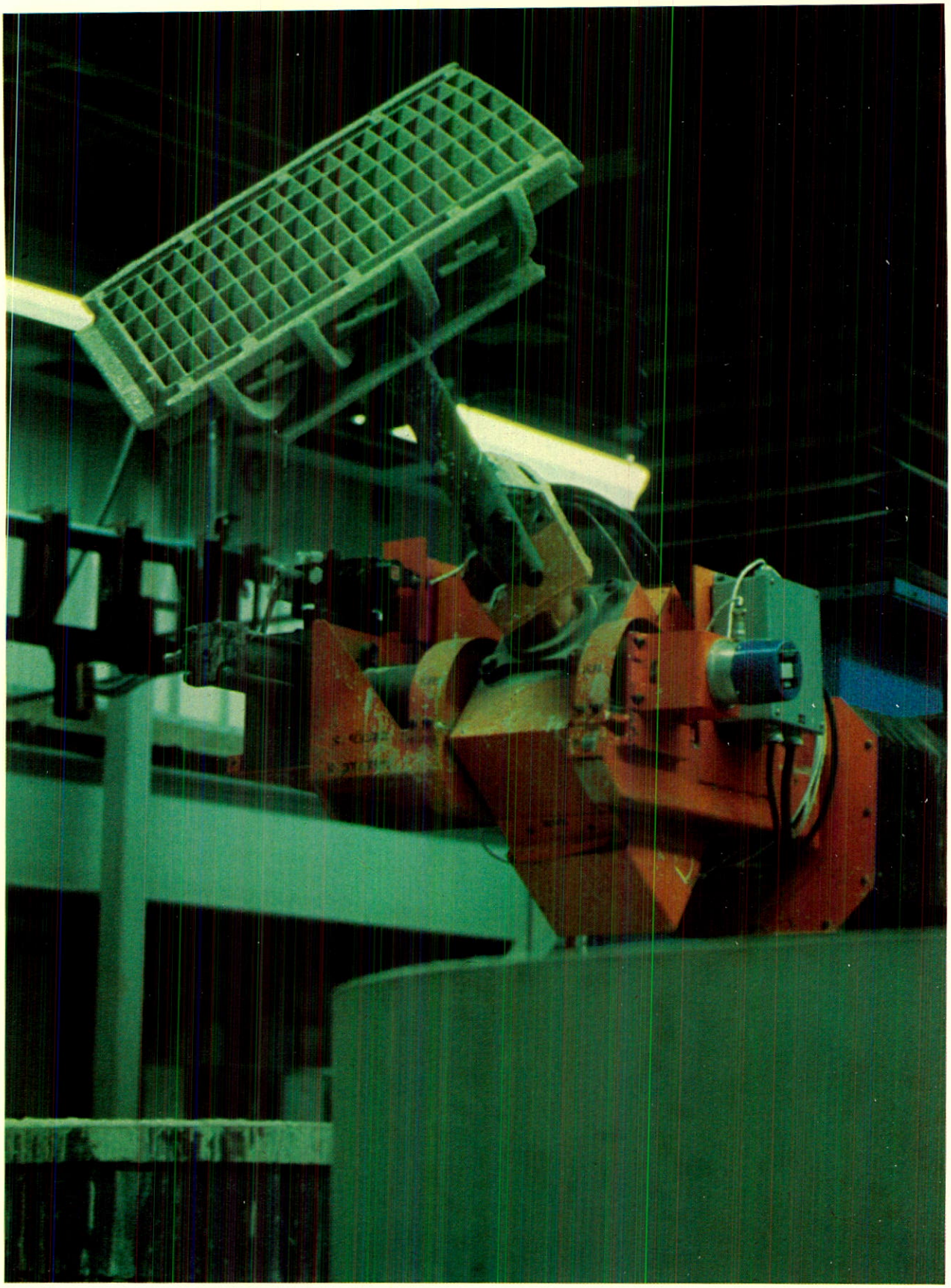
Interlake makes polyester and polypropylene strapping on automated equipment in a facility which recently has been expanded. Polyester and polypropylene are the two leading non-metallic straps on the market today. Under tension, plastic strapping can "give" somewhat more than steel and still return to its original length. Polyester is the strongest plastic strapping. It is the primary strapping material used in the can and bottle industries.

Steel strapping has been revitalized by new technology. Interlake's patented SupraMet™ gives the performance once available only in high tensile steel strap, at a cost that's 5 to 8% less. SupraMet is the outgrowth of advances in Interlake steelmaking quality.

Large automatic strapping machines are continually improving. For example, the corrugated paper industry relies on high-speed unitizing machines to strap shipments of flattened corrugated containers. Interlake has been a long-standing leader in unitizing systems. Over the years, manual controls have been replaced by relays, which more recently have been replaced by programmable controllers. It is now possible for a unitizer operator to select the number and pattern of straps he wishes to apply by merely pushing buttons. The machine executes a complex sequence of measuring, binding and sealing steps quickly, precisely and automatically.



(Far left) Automated production of plastic strapping takes place in a plant which Interlake built in 1981. Recent expansion increased polyester strap production capability. (Above) Interlake's wire stitching technology helps makers of other products offer improvements, such as this high-speed collating machine. (Below) Programmable controls bring strapping automation to our unitizing systems.

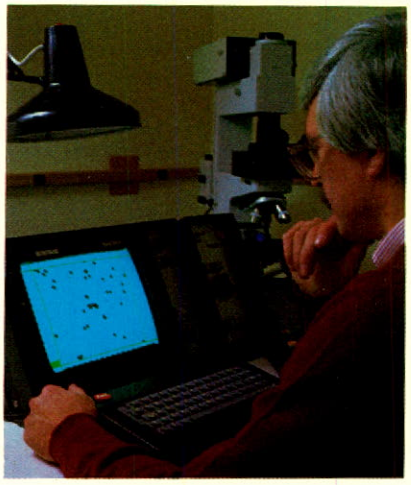


Technologies are constantly improving. Interlake will use the latest technologies when their reliability, efficiency and quality improve our processes or products. The benefits accrue as we move up the learning curve—reducing production costs, improving quality and becoming more competitive.

In several locations where Interlake makes castings, robots have improved parts handling. They have improved the quality of investment castings, where precision processing and repeatability is required. For example, to make high-quality, consistent shells for investment castings, robots dip wax patterns alternately into tanks of liquid coating and dry ceramic material. The robot can evenly coat a wax form for jet engine thrust reverser cascades. Interlake's application of robotics has improved the technology of applying coatings.

Interlake was the first metallurgical coke producer in the United States to employ "ceramic welding" in repairing and extending the life of coke oven brick. The technology was originally developed in the glass industry to repair glass melting furnaces. A mixture of special ceramic material is injected by oxygen lance into a damaged area, where the ceramic fuses with the brick.

Quality depends on support from up-to-date analytical technology. At Interlake's metal powder operations, research and production activities are supported by a host of scientific equipment, including a computerized optical image analyzer. The unit automatically performs sampling procedures and complex statistical analyses. Quicker, more accurate results can be obtained with less human effort.



(Far left) Robots have significantly improved process quality in investment casting production. Here a robot follows a programmed sequence of steps in building the ceramic mold for a jet engine cascade. (Above) Computerized image analysis equipment automatically scans a metal powder sample and calculates the required data faster and more accurately than by manual methods. (Below) Interlake uses "ceramic welding" technology to extend coke oven life.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (dollars in millions except per share data)

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

Interlake has redefined its product groupings for business segment reporting in order to provide a clearer understanding of the Company. Included in the following discussion is an analysis of Interlake's performance by segment, with prior years' information restated to reflect the new segments.

Consolidated Results

The year's results reflected the continued economic recovery which began in 1983. In addition, the net income gain outpaced the sales growth. Finally, the Company's strong financial condition was maintained.

Net sales of continuing operations rose to $845.1, an improvement of $81.5 or 11%. Income from continuing operations in 1984 of $36.6 ($6.68 per share) was $12.2 or 50% higher than in 1983. The year's better performance can be traced to growth in the economy and stringent cost controls.

All business segments of the Company recorded higher sales in 1984 than in 1983, and all, except primary metals, had higher operating profits. Growth in the domestic economy was particularly strong in the automotive and military aerospace sectors, two of the key industries served by Interlake. General economic improvements also occurred in Europe, Canada and Australia. As a result, all of the Company's major foreign operations had improved results in 1984.

Operating income increased by 56% in 1984 after a significant increase in 1983. Cost of products sold declined as a percentage of sales to 79% in 1984 from 80% in 1983 and 83% in 1982. Improved cost absorption at higher operating volumes was augmented by an effective cost reduction program. Selling and administrative expense also declined as a percentage of sales to 13% in 1984 from 14% in 1983 and 16% in 1982. Continuing close controls of staffing levels and expenditures enabled this trend to continue.

Non-operating items, consisting of interest expense, interest income and miscellaneous items, represented $2.3 less expense in 1984. Most of the reduction was the result of increased interest income because of higher cash balances. In addition, lower debt outstanding reduced interest expense.

The provision for income taxes was at effective rates of 44.4%, 35.0%, and 18.9% in 1984, 1983 and 1982, respectively. The principal factor affecting the rates was investment tax credits which were $1.6, $1.6 and $2.9, respectively. Investment tax credits and other tax credits and deductions represented a much smaller ratio to pre-tax income in 1984 and 1983 than they did in 1982.

Income per share from continuing operations advanced by 58% in 1984 after a 249% increase in 1983. Dividends of $2.60 per share per year were maintained throughout the 1982-1984 period. For the three years, dividends per share were 68% of net income per share with 32% of earnings retained for growth of the business.

Acquisition and Discontinued Operation

In December, 1984, the Company acquired Chem-tronics, Inc. for $52.0. Its business is principally the manufacture of cases and rings for jet engines for the military and commercial aircraft markets.

Also in the fourth quarter, the Company sold the business and substantially all assets of its silicon metal/ferroalloys business for cash, notes, and preferred stock approximately equivalent to the book value of the net assets sold. The operating results of the silicon metal/ferroalloys business have been segregated from those of continuing operations in the consolidated statements of income and changes in financial condition.

Review of Business Segments

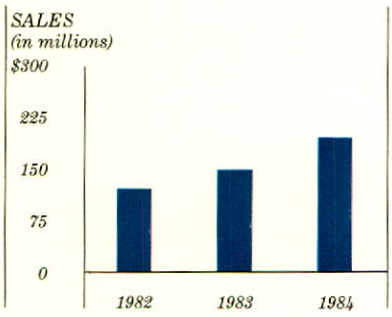
The following commentary presents 1984 operating results and selected other financial information for the four business segments, with 1983 and 1982 amounts restated. A description of the product groupings included in each segment is shown in Note 13 of Notes to Consolidated Financial Statements.

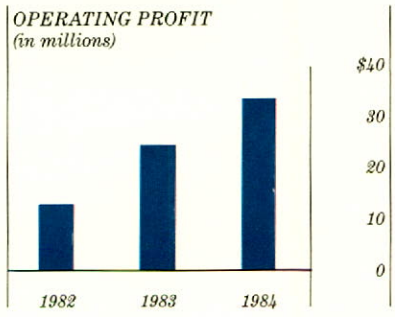
Special Materials

Sales grew by 25% in 1984 after a 16% increase in 1983. Strength in the automotive and military aerospace sectors was the major impetus for the increases. Ferrous metal powder sales for die forming and forging of automotive components benefited from the U.S. auto industry's best sales and production year since 1979. An increase in military procurement led to a higher level of investment casting sales. Sales to the commercial aircraft industry, while better than 1982's depressed level, still lagged the recovery pace of the economy in general. Sales of special materials in foreign markets were somewhat weaker in 1984, as the strength of the dollar created a competitive disadvantage.

Operating profits of this business segment benefited from higher operating volume, stability of material costs, labor efficiencies and an ongoing cost reduction program.

Total assets employed in the business rose to $199.6 in 1984 from $124.0 at the end of 1983, primarily as a result of the Chem-tronics acquisition.



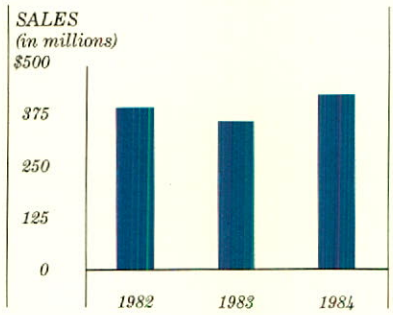


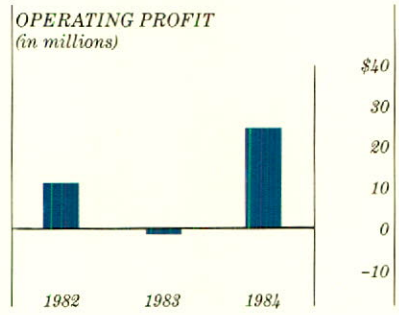
Packaging and Handling

General increases in manufacturing activity and a resurgence of industrial capital spending in 1984 enabled packaging and handling to realize a 12% sales gain from 1983's level, after a decline of 5% from 1982 to 1983. In the U.S., there was a unit volume increase in steel and non-metallic strapping, and pallet rack. Sales volume of these items in Canada and the U.K., although higher than 1983's level, increased at a slower rate than in the U.S. Sales improved at subsidiaries in Australia and Belgium but were about level with 1983 in Germany. The strength of the U.S. dollar had an adverse effect in translating sales of foreign operations into U.S. dollars of $19.9 in 1984 and $20.9 in 1983.

Operating profit of this business segment improved substantially in 1984 due to increased operating volume levels, improved selling prices in Canada and the U.K., and cost reduction efforts. Also, the divestiture of an unprofitable French subsidiary early in 1984 improved relative earnings performance. A small operating loss was incurred in 1983, primarily because of a $10.5 provision for restructuring European operations, which, in part, anticipated the sale of the French operation.

Total assets employed in this business declined to $169.9 at the end of 1984 from $210.7 in 1982 due primarily to reduced working capital requirements, foreign exchange effects and the sale of the French subsidiary.



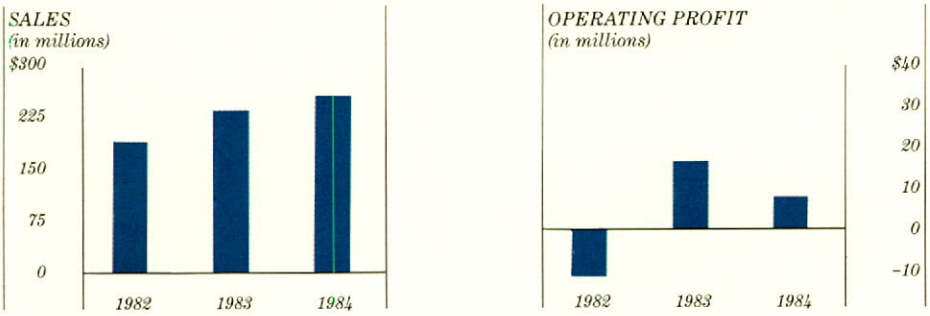


Primary Metals

Sales of iron and steel products advanced 7% in 1984 after a 23% gain in 1983. Iron sales were lower by 40% in 1984, caused by a drop in sales of hot metal for the ingot mould and stool market and the absence of spot sales of hot metal to steel companies. Steel sales advanced by 24% in 1984. Commercial sales were up 16%, while sales to packaging and handling for internal use had a 43% increase. Commercial steel sales were strong during the first half of 1984 but trailed off in the second half, as the level of imported steel accelerated. Also, U.S. economic growth slowed.

Operating profits of this segment declined from 1983's level. However, 1983 benefited from an $8.4 reversal of a portion of a prior year shutdown provision. In addition, the major blast furnace at the Chicago iron plant was relined and rehabilitated in 1984, which added significantly to the year's costs.

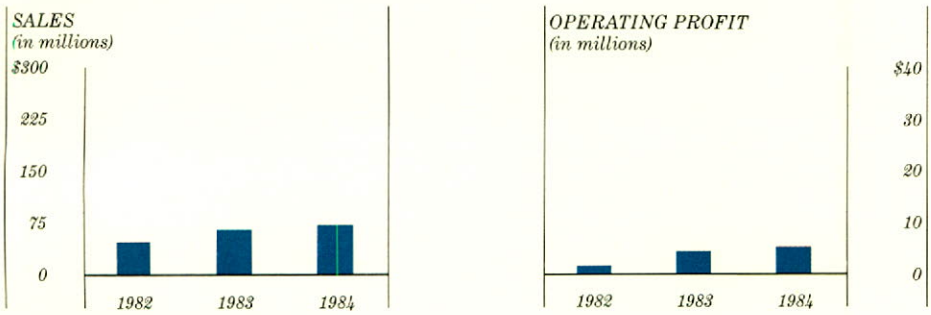
Total assets used by this segment declined to $163.8 in 1984 from $185.7 at the end of 1982. Working capital requirements were reduced by $20.1, primarily inventories.



Supplementary Products

Sales of this business segment, which contains product groupings not included in the three core business segments above, rose by 9% in 1984 after a 7% increase in 1983. Die castings, the largest single product group in this category, had an 18% increase in sales in 1984 after a 31% increase in 1983. Ferrous metal powders for welding, chemical and friction applications had a 14% increase in sales in 1984. All other products in this segment had combined sales about equal to 1983's total.

Operating profit of this segment rose to 8.2% of sales in 1984 from 6.9% in 1983. Total assets employed in this segment remained relatively stable since 1982.



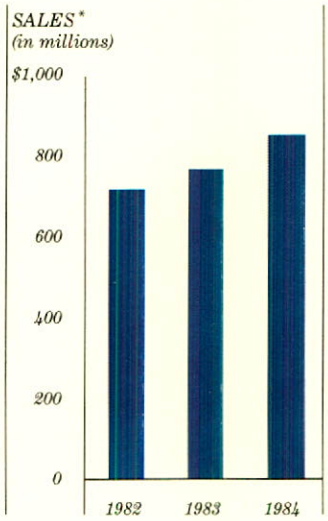
Liquidity and Capital Resources

Funds provided from operations and working capital reductions totaled $103.9 in 1984. In addition to the acquisition of Chem-tronics ($52.0) and the stock repurchase in February, 1984 ($21.6), funds were used for capital expenditures ($22.8) and dividends net of reinvestments ($11.6). Over the three-year period total debt was reduced by $26.7, while capital expenditures of $65.1, stock repurchases of $41.6 and net dividends of $34.8 were met out of funds generated from operations.

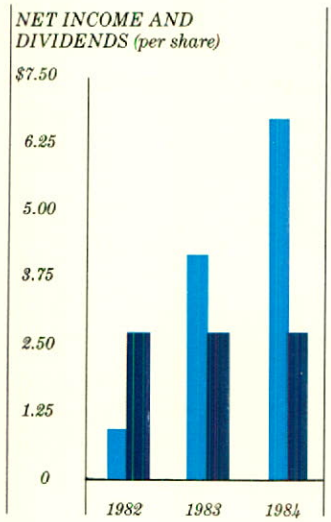
Capital expenditures totaled $22.8 in 1984, up from $15.8 in 1983. As in 1983, the principal focus of capital expenditures was facility sustaining projects.

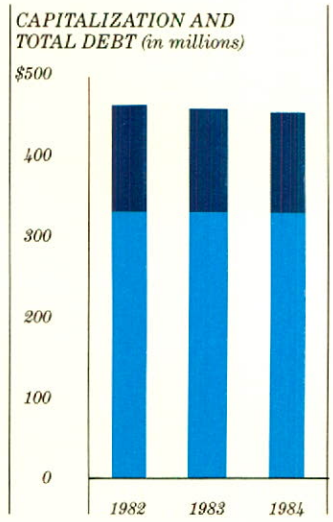
Dividends of $2.60 per share in 1984 continued the rate paid in 1983 and 1982. Dividends (before reinvestments) totaled $14.1 compared with $15.1 in 1983. The repurchase of 500,000 shares for the treasury in February, 1984 caused the reduction. Dividends reinvested by shareholders totaled $2.5 in 1984 and $1.9 in 1983.

Because of the Company's strong financial condition, resources are adequate to satisfy projected operating requirements. Cash and cash equivalents at the end of 1984 totaled $47.1, down $5.2 from the preceding year end. In addition, the Company maintains revolving credit and short-term bank credit facilities of $121, of which $117 was unused at the end of 1984.



*of continuing operations





REPORT OF MANAGEMENT

The financial statements of Interlake, Inc. and consolidated subsidiaries, presented on pages 25 through 37 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.

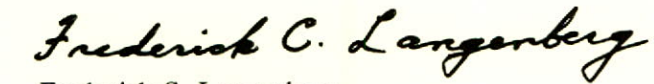
Interlake maintains an extensive system of internal accounting controls and procedures designed to provide reasonable assurance, at a justifiable cost, as to the reliability of financial records and reporting and the protection of assets. This system consists, in part, of organizational arrangements 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 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
Vice President—Finance
and Chief Financial Officer



Frederick C. Langenberg
Chairman and Chief
Executive Officer

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 consolidated statement of changes in financial position present fairly the financial position of Interlake, Inc. and its subsidiaries at December 30, 1984 and December 25, 1983, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 30, 1984, 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 31, 1985

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

For the Years Ended December 30, 1984, December 25, 1983 and December 26, 1982

	1984 (53 weeks)	1983 (52 weeks)	1982 (52 weeks)
	(in thousands except per share data)		
Net Sales of Continuing Operations	**$845,087**	$763,549	$712,406
Cost of products sold	**665,017**	610,407	591,420
Gross Profit	**180,070**	153,142	120,986
Selling and administrative expense	**106,699**	106,176	110,695
Operating Income	**73,371**	46,966	10,291
Interest expense	**9,854**	11,092	12,004
Interest income	**(9,241)**	(5,575)	(7,123)
Nonoperating (income) expense	**1,210**	(1,391)	(4,123)
Income From Continuing Operations Before Unusual Items, Taxes on Income and Minority Interest	**71,548**	42,840	9,533
Unusual Items	**—**	(2,100)	1,300
Income From Continuing Operations Before Taxes on Income and Minority Interest	**71,548**	40,740	10,833
Provision for Income Taxes	**31,793**	14,276	2,046
	39,755	26,464	8,787
Minority Interest in Net Income of Subsidiary	**3,204**	2,074	1,210
Income From Continuing Operations	**36,551**	24,390	7,577
Income (Loss) From Discontinued Operations, Net of Income Taxes	**—**	(1,566)	(1,825)
Net Income for the Year	**$ 36,551**	$ 22,824	$ 5,752
Income (Loss) Per Share of Common Stock:			
Continuing Operations	**$ 6.68**	$ 4.22	$ 1.21
Discontinued Operations	**—**	(.28)	(.29)
Net Income	**$ 6.68**	$ 3.94	$ .92
Retained Earnings at Beginning of Year	**$268,966**	$261,202	$271,448
Net Income for the Year	**36,551**	22,824	5,752
	305,517	284,026	277,200
Deduct—Cash Dividends Declared or Paid ($2.60 per share)	**(14,095)**	(15,060)	(15,998)
Retained Earnings at End of Year	**$291,422**	$268,966	$261,202

(See notes to consolidated financial statements)

CONSOLIDATED BALANCE SHEET

December 30, 1984 and December 25, 1983

Assets	1984	1983
	(in thousands)	
Current Assets:		
Cash	**$ 2,251**	$ 1,861
Cash equivalents	**44,844**	50,469
Receivables, less allowances of $2,873,000 in 1984 and $3,057,000 in 1983	**130,113**	162,180
Inventories	**110,863**	136,695
Other current assets	**44,218**	26,493
Total current assets	**332,289**	377,698
Investments and Other Assets:		
Investments in and advances to associated companies	**25,911**	23,668
Goodwill, less amortization	**28,071**	12,584
Other assets	**55,587**	12,956
	109,569	49,208
Property, Plant and Equipment, at cost:		
Land and coal properties, less depletion	**10,883**	9,266
Buildings	**101,050**	103,836
Equipment	**447,067**	470,186
Construction in progress	**5,667**	6,267
	564,667	589,555
Less—Depreciation and amortization	**(323,951)**	(342,531)
	240,716	247,024
Total Assets	**$682,574**	$673,930
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	**$ 67,415**	$ 63,994
Accrued liabilities	**49,926**	58,993
Accrued salaries and wages	**21,135**	19,510
Income taxes payable	**20,081**	19,822
Debt due within one year	**9,396**	12,519
Total current liabilities	**167,953**	174,838
Long-Term Debt	**112,898**	115,994
Other Long-Term Liabilities:		
Post-retirement benefits	**25,231**	22,235
Other	**28,921**	18,521
	54,152	40,756
Future Income Taxes	**24,307**	14,941
Commitments and Contingencies	**—**	—
Shareholders' Equity:		
Common stock, par value $1 per share, authorized 20,000,000 shares, issued—7,158,551 shares 1984 and 1983	**124,265**	122,331
Cost of common stock held in treasury (1,691,392 shares 1984 and 1,324,570 shares 1983)	**(49,795)**	(31,414)
Retained earnings	**291,422**	268,966
Accumulated foreign currency translation adjustments	**(42,628)**	(32,482)
	323,264	327,401
Total Liabilities and Shareholders' Equity	**$682,574**	$673,930

(See notes to consolidated financial statements)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 30, 1984, December 25, 1983 and December 26, 1982

	1984	1983	1982
		(in thousands)	
Cash From (For) Continuing Operations:			
Income from continuing operations	**$ 36,551**	$ 24,390	$ 7,577
Add (deduct) noncash items:			
Depreciation and amortization	**22,325**	21,780	20,727
Future income taxes	**9,366**	(6,259)	462
Other noncash items	**5,796**	5,171	2,580
	74,038	45,082	31,346
Cash From Working Capital (exclusive of acquisitions, divestitures, discontinued operations and debt)	**29,858**	13,707	11,608
Cash From Continuing Operations and From Working Capital	**103,896**	58,789	42,954
Capital Expenditures of Continuing Operations	**(22,843)**	(15,829)	(26,449)
Disposals of Property, Plant and Equipment of Continuing Operations	**957**	1,941	714
Other Sources (Uses) of Continuing Operations:			
Changes in exchange rates	**(8,261)**	(3,758)	(7,185)
All other	**11,539**	8,792	5,667
Cash From Continuing Operations Before Dividends	**85,288**	49,935	15,701
Dividends	**(14,095)**	(15,060)	(15,998)
Proceeds From Dividend Reinvestment Program	**2,520**	1,944	5,869
Cash From Continuing Operations Before Investments	**73,713**	36,819	5,572
Acquisition	**(52,000)**	—	—
Divestitures	**(711)**	—	8,285
Discontinued Operations	**11,694**	(7,011)	4,005
Cash Before Financing	**32,696**	29,808	17,862
Financing Increase (Decrease):			
Debt due within one year	**(8,672)**	(3,363)	4,593
Long-term debt	**(7,634)**	(6,344)	(5,243)
Purchase of treasury stock	**(21,625)**	—	(19,949)
Cash Increase (Decrease) (including cash equivalents)	**$ (5,235)**	$ 20,101	$ (2,737)

(See notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 30, 1984, December 25, 1983 and December 26, 1982

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 $102,678,000 and $113,260,000, at December 30, 1984 and December 25, 1983, 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 from continuing operations before taxes was increased by $13,433,000, equivalent to $1.16 per share after applicable income taxes.

December 30, 1984 and December 25, 1983 inventory amounts by category were:

	1984	1983
Raw materials	**$28,091,000**	$48,154,000
Semi-finished and finished products	**66,154,000**	68,943,000
Supplies	**16,618,000**	19,598,000
	$110,863,000	$136,695,000

In 1984, 1983 and 1982 the Company made raw material purchases of $57,491,000, $41,983,000, and $41,976,000, respectively, from affiliated iron ore and coal mining interests. Amounts due to affiliated companies for such raw material purchases were $12,211,000, $17,693,000, and $15,430,000 at December 30, 1984, December 25, 1983 and December 26, 1982, 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. In 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 more accurately charges 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 periods not exceeding thirty years.

Foreign Currency Translation—Translation adjustments which do not affect cash flows are deferred in a separate component of shareholders' equity entitled "accumulated foreign currency translation adjustments" until sale or liquidation of the investment in the associated foreign entity.

An analysis of the changes to this account during 1984 and 1983 is as follows:

	1984	1983
	(in thousands)	
Beginning balance	**$(32,482)**	$(24,961)
Adjustments from translating foreign currency financial statements at current rates	**(12,483)**	(7,521)
Divestiture	**2,337**	—
Balance at fiscal year-end	**$(42,628)**	$(32,482)

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.

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. Actuarial assumptions used in the calculation of pension costs include increases in employee compensation and earnings on pension fund assets generally consistent with Company experience. 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 domestic 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. The post-retirement benefits are not funded.

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 acquisitions, divestitures, discontinued operations and debt) was comprised of:

	1984	1983	1982
		(in thousands)	
Cash From (For)			
Receivables	**$34,529**	$(35,856)	$20,395
Inventories	**17,148**	23,162	12,893
Other current assets	**(17,788)**	(2,495)	(4,448)
Accounts payable and other accrued liabilities	**(2,284)**	12,739	(16,864)
Income taxes payable	**(1,747)**	5,891	(368)
Reclassification of accounts payable to affiliate	**—**	10,266	—
	$29,858	$13,707	$11,608

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. 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 30, 1984	December 25, 1983
	(in thousands)	
8.8% Debentures, due annually $2,500,000 in 1985 to 1995, and $5,000,000 in 1996	**$28,575**	$30,759
8½% Senior Notes, due annually $3,000,000 1985 through 1998	**42,000**	45,000
Obligations under long-term lease agreements	**14,500**	15,050
13% Notes payable, due annually in varying installments from 1985 to 1992	**9,055**	9,844
Pollution control and industrial development loan agreements	**17,350**	17,350
Other	**7,043**	2,324
	118,523	120,327
Less—current maturities	**5,625**	4,333
	$112,898	$115,994

At December 30, 1984, 8.8% debentures with a face value of $3,925,000 were held in the treasury by the Company. $2,500,000 of these are expected to be used in meeting the 1985 sinking fund requirement and have been applied as a reduction of debt due within one year.

Notes to Consolidated Financial Statements—(Continued)

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 1984, after giving effect to debentures held by the Company and available for sinking fund requirements, are as follows:

1985	1986	1987	1988	1989
$5,625,000	$7,014,000	$7,342,000	$10,717,000	$6,825,000

The Company maintains formal and informal, domestic and foreign, intermediate and short-term bank credit facilities of $121,000,000 against which $3,771,000 was borrowed at December 30, 1984. 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 arrangements to maintain average compensating balances of 5% for the unused portion of certain 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 57,026 shares or $2,520,000 in 1984, 56,063 shares or $1,944,000 in 1983, and 220,596 shares or $5,869,000 in 1982.

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 30, 1984, December 25, 1983, and December 26, 1982. On February 7, 1984 the Company repurchased 500,000 shares of Interlake common stock for $43.25 per share. These shares were held in the treasury at December 30, 1984.

Shares outstanding averaged 5,472,810 in 1984, 5,785,740 in 1983, and 6,263,194 in 1982.

NOTE 5—STOCK INCENTIVE PLANS

On April 26, 1984 the shareholders approved the Interlake, Inc. 1984 Stock Incentive Program which replaces the 1975 Amended and Restated Stock Option Plan and the 1977 Stock Incentive Program. No further stock options, stock appreciation rights (S.A.R.'s) or stock awards may be granted pursuant to the 1975 Plan or the 1977 Program.

The 1984 Stock Incentive Program provides for the granting of stock options, S.A.R.'s and stock awards to officers and other key employees. Additionally, the Board is authorized to adopt a Restricted Stock Purchase Plan. A maximum of 540,000 shares of common stock may be issued pursuant to the Program. The number of shares issued as stock awards may not exceed 150,000. No benefits may be granted pursuant to the Program more than ten years after the date of ratification and approval of the Program by the shareholders.

Options may be granted for the purchase of common stock at prices not less than market price at date 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. 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.

Stock appreciation rights granted pursuant to the 1984 Program permit an optionee, in lieu of exercising all or any part of his stock option, to surrender the same in exchange for an amount equal to 100%, or such lesser percentage as the Board may determine, of the excess of the market price of the Interlake common stock on the date such right is exercised over the option price, multiplied by the number of optioned shares surrendered. S.A.R.'s are exercisable only during the period in which the related option is exercisable or during such shorter period as the Board may determine. The number of shares purchasable pursuant to an option is reduced to the extent such shares are used in calculating the amount received pursuant to an exercise of a related S.A.R.

Stock awards granted pursuant to the 1984 Program consist of shares of common stock transferred to participants as additional compensation and without additional consideration, either on an unrestricted basis or subject to such restrictions, terms and conditions as the Board determines appropriate. Shares are delivered to recipients 20% at the date of the award and 20% on each of the succeeding anniversary dates, subject to certain restrictions. The Board of Directors has not adopted a Restricted Stock Purchase Plan.

The Company's 1975 Amended and Restated Stock Option Plan provided for the granting of options for the purchase of a maximum of 650,000 shares of common stock to officers and other key employees at prices not less than fair market value at the dates of grant. Options granted under this Plan outstanding at December 30, 1984 expire at various dates until 1993.

The Company's 1977 Stock Incentive Program consisted of a Stock Appreciation Rights Plan with a maximum of 300,000 shares of common stock, and a Stock Awards Plan and a Restricted Stock Purchase Plan, with a maximum of 100,000 shares for both plans. The Board of Directors did not adopt a Restricted Stock Purchase Plan.

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

	1984		1983		1982	
	Option Shares	**Average Option Price**	Option Shares	Average Option Price	Option Shares	Average Option Price
Stock Options:						
Outstanding—beginning of year	**348,156**	**$35.20**	364,012	$29.95	283,337	$30.94
Granted	**64,850**	**45.19**	167,150	39.94	94,450	26.84
Exercised	**(66,814)**	**30.00**	(54,941)	26.24	(1,674)	24.76
Surrendered for exercised S.A.R.'s	**(25,656)**	**32.16**	(69,450)	26.53	(4,899)	27.39
Canceled or expired	**(8,461)**	**38.02**	(58,615)	34.78	(7,202)	30.81
Outstanding—end of year	**312,075**	**38.56**	348,156	35.20	364,012	29.95
Exercisable—end of year	**146,756**	**34.93**	147,965	32.43	217,761	30.22
Available for grant	**327,050**		117,757		226,292	

The number of shares available for grant as stock options at December 30, 1984 under the 1984 Stock Incentive Program assumes that the number of shares issued as stock awards will be the maximum permitted by the Program. Should fewer shares be issued as stock awards, additional shares will be available for grant as stock options, subject to the overall limitations of the Program as described in this note.

Treasury shares issued for exercised S.A.R.'s totaled 4,348 in 1984, 9,671 in 1983, and 376 in 1982. The 1984 Stock Incentive Program and its predecessor resulted in the awarding of 23,500 shares in 1984, 19,350 shares in 1983, and 21,750 shares in 1982 with total market value at dates awarded of $1,041,000, $649,000, and $701,000, respectively. During 1984, 18,510 shares were received from employees in payment for exercise of stock options.

NOTE 6—RETAINED EARNINGS

As of December 30, 1984, the Company can pay cash dividends and/or repurchase the Company's capital stock in amounts up to $94,100,000 under the most restrictive terms of the Company's various loan agreements.

Notes to Consolidated Financial Statements—(Continued)

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—ACQUISITION

On December 4, 1984 the Company acquired substantially all of the outstanding common stock of Chem-tronics, Inc., a manufacturer of jet engine cases and rings, for $52,000,000 cash (representing current and long-term assets of $16,453,000 and $55,638,000, respectively, less liabilities assumed of $20,091,000). The Company is accounting for this acquisition using the purchase method. The excess of cost over the fair value of net assets acquired, $16,260,000, is being amortized on a straight-line basis over a thirty-year period.

Following is a pro forma summary of the consolidated results of operations for 1984 and 1983, assuming the acquisition had occurred at the beginning of 1983. Pro forma consolidated earnings have been adjusted to reflect interest on funds expended to acquire Chem-tronics, and depreciation and amortization of the fair value adjustment of acquired assets and goodwill, net of applicable taxes.

	1984	1983
	(dollars in thousands except per share data)	
Net sales of continuing operations	**$877,733**	$797,671
Income from continuing operations	**34,096**	22,864
Net Income	**34,096**	21,298
Per share of common stock		
Income from continuing operations	**$6.23**	$3.96
Net Income	**6.23**	3.68

NOTE 9—DISCONTINUED OPERATIONS

In November, 1984 the Company sold the manufacturing facilities and related inventories of its silicon metal and ferroalloy business for amounts approximating book value. The disposal resulted in a pre-tax gain of $512,000 which, after applicable income taxes of $795,000 (including the recapture of U.S. investment tax credits), was equivalent to a loss of $.05 per share. Proceeds of $33,578,000 were received in cash, notes and redeemable preferred stock.

The results of discontinued operations through the date of disposal, including Corporate and interest expense attributable to discontinued operations, have been segregated from continuing operations in the accompanying financial statements and are summarized below. Interest expense of $996,000, $1,178,000 and $1,072,000 in 1984, 1983 and 1982, respectively, has been allocated on the basis of assets employed in operations.

	For the year		
	1984	1983	1982
		(in thousands)	
Net sales	**$93,343**	$71,883	$55,082
Income (loss) from discontinued operations less related income tax provision of $275,000 in 1984 and income tax benefits of $1,238,000 in 1983 and $1,774,000 in 1982	**$ 283**	$(1,566)	$(1,825)
(Loss) on disposal of discontinued operations, after applicable income tax provision of $795,000	**(283)**	—	—
Total income (loss) from discontinued operations	**$ —**	$(1,566)	$(1,825)

NOTE 10—RETIREMENT BENEFITS

Pension expense of continuing operations totaled $5,046,000, $7,484,000, and $15,683,000 in 1984, 1983 and 1982, respectively. The decrease in pension expense in 1984 was largely due to pension expense adjustments made possible by improved pension fund performance. The 1983 pension expense decrease was due primarily to significantly improved performance by pension fund assets, an increased rate of return on investments from 7% to 8%, and the merger of two plans. As in the past, the Company expects to reduce pension costs through the use of its excess pension plan assets.

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

	December 30, 1984	December 25, 1983
	(in thousands)	
Actuarial present value of accumulated plan benefits		
Vested	**$169,400**	$177,400
Non-vested	**3,200**	2,200
	172,600	179,600
Effect of projected pay increases	**32,500**	28,700
	$205,100	$208,300
Net assets available for plan benefits	**$288,300**	$285,400

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8% for 1984 and 1983.

As of the most recent actuarial valuations, 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 of continuing operations was $3,821,000, $3,393,000, and $2,922,000 in 1984, 1983 and 1982, respectively.

NOTE 11—INCOME TAXES

The provisions for taxes on income from continuing operations consist of:

	1984	1983	1982
		(in thousands)	
Current:			
U. S. Federal	**$ 6,527**	$11,354	$ 831
State	**2,618**	2,342	529
Foreign	**10,173**	5,899	3,932
Total	**19,318**	19,595	5,292
Deferred:			
U. S. Federal	**13,129**	(4,325)	(2,493)
State	**—**	—	—
Foreign	**(654)**	(994)	(753)
Total	**12,475**	(5,319)	(3,246)
Tax Provision	**$31,793**	$14,276	$ 2,046

The U. S. Federal income tax provisions on income from continuing operations were reduced by investment tax credits, net of recapture, of $1,560,000 in 1984, $1,600,000 in 1983, and $2,878,000 in 1982.

Notes to Consolidated Financial Statements—(Continued)

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:

	1984	1983	1982
		(in thousands)	
Excess of tax over book depreciation	**$ 7,496**	$(11,960)	$21,772
Restructure of European operations	**5,034**	(6,176)	—
Retirement benefit costs	**619**	263	(9,460)
Equity in earnings of affiliated companies	**536**	3,036	(1,225)
Foreign translation and hedge contracts	**(154)**	580	1,646
Benefit on plant closings	**(1,079)**	5,575	(1,038)
Sale of interest in joint venture	**—**	5,173	(13,056)
All other net	**23**	(1,810)	(1,885)
	$12,475	$ (5,319)	$ (3,246)

The effective income tax rates for continuing operations for 1984, 1983 and 1982 are reconciled to the federal statutory tax rate in the following table:

	1984	1983	1982
Statutory federal income tax rate	**46.0%**	46.0%	46.0%
Increase(reduction) in taxes resulting from:			
Investment tax credit	**(2.2)**	(3.9)	(26.6)
Adjustment of available tax reserves	**(1.1)**	(1.0)	(3.7)
Capital gains	**(.5)**	(2.6)	—
Excess percentage over cost depletion	**(.5)**	(2.5)	(2.3)
Tax effect of U. K. stock relief	**(.3)**	(2.4)	(7.5)
Taxes on foreign income before stock relief	**(.1)**	3.4	9.8
Purchased tax lease benefits	**(.1)**	(.5)	(1.8)
Earnings attributable to affiliated companies	**.3**	(2.3)	1.5
State income taxes	**2.0**	3.1	2.6
Restructure of European operations	**—**	(3.3)	—
All other net	**.9**	1.0	.9
	44.4%	35.0%	18.9%

The amounts included in consolidated income from continuing operations before taxes on income which represent income of foreign operations were $20,841,000, $8,878,000, and $5,723,000 for 1984, 1983 and 1982, respectively.

As of December 30, 1984, 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 $93,834,000 of unremitted earnings of foreign subsidiaries, considered to be indefinitely reinvested at December 30, 1984.

NOTE 12—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 13—BUSINESS SEGMENT INFORMATION

In 1984, the Company restructured its product groupings into four new segments. These segments are composed of products which have similar strategic emphasis and which reflect the changes within the Company towards higher technological development. These new segments better describe, and provide a clearer understanding of, the Company. The four business segments are:

Special Materials—included are powdered metal for forming complex shapes, investment castings, and jet engine cases and rings.

Packaging and Handling—included are steel and non-metallic strapping and equipment, pallet rack and storage systems, and metal stitching products.

Primary Metals—included are iron and steel products.

Supplementary Products—included are die castings, coal chemicals, miscellaneous metal powders, blade repairs, office/interior products and associated products purchased for resale.

The accompanying tables present financial information by business segment for the years 1984, 1983 and 1982.

Sales between business segments are primarily priced at market value for primary metal products and at distributor prices for packaging and 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:

	Special Materials	Packaging and Handling	Primary Metals	Supplementary Products
		(in millions)		
1983				
Provision for restructure of European operations	$ —	$(10.5)	$ —	$ —
Shutdown/disposal provisions	—	—	8.4	—
Pension expense adjustment	.5	1.8	4.9	.1
	$ .5	$ (8.7)	$ 13.3	$ .1
1982				
Liquidation of LIFO inventory quantities	$ —*	$ 5.3	$ 6.6**	$ —
Shutdown/disposal provisions	—	—	1.3	—
Plant closings and relocations	(1.5)	(1.0)	—	(2.1)
Depreciation adjustments	—	.4	2.4	—
	$ (1.5)	$ 4.7	$ 10.3	$ (2.1)

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

Total assets by business segment consist of those assets used directly in the operations of each segment. Corporate assets consist principally of cash and cash equivalents, investments in real property and, in preceding years, the assets of a discontinued operation.

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

Notes to Consolidated Financial Statements—(Continued)

INFORMATION ABOUT THE COMPANY'S BUSINESS SEGMENTS

	Year	Net Sales: Customers	Net Sales: Affiliates	Operating Profit (Loss) (a)	Assets at Year-End (b)	Depreciation and Amortization	Capital Expenditures
				(in millions)			
Special Materials	**1984**	**$186.2**	**$ —**	**$34.3**	**$199.6**	**$ 5.5**	**$ 5.1**
	1983	149.5	—	24.2	124.0	4.9	5.0
	1982	128.4	—	13.2	120.0	4.4	9.2
Packaging and Handling	**1984**	**406.4**	**1.2**	**24.3**	**169.9**	**6.3**	**5.9**
	1983	363.2	1.0	(1.8)	197.1	6.7	7.6
	1982	380.5	.7	11.3	210.7	6.6	10.8
Primary Metals	**1984**	**178.5**	**66.6**	**7.1**	**163.8**	**8.6**	**10.3**
	1983	182.7	46.5	17.7	170.5	8.6	1.9
	1982	139.5	46.7	(12.0)	185.7	8.1	3.3
Supplementary Products	**1984**	**74.0**	**.1**	**6.1**	**38.3**	**1.9**	**1.4**
	1983	68.1	.1	4.7	39.1	1.7	1.2
	1982	64.0	—	1.0	39.4	1.7	3.1
Corporate Items/ Eliminations	**1984**	**—**	**(67.9)**	**(.3)**	**111.0**	**—**	**.1**
	1983	—	(47.6)	(4.1)	143.2	(.1)	.1
	1982	—	(47.4)	(2.7)	100.0	(.1)	—
Consolidated	**1984**	**845.1**	**—**	**71.5**	**682.6**	**22.3**	**22.8**
	1983	763.5	—	40.7	673.9	21.8	15.8
	1982	712.4	—	10.8	655.8	20.7	26.4

		1984	1983	1982
(a) includes equity in earnings of unconsolidated affiliates of:	Primary Metals	**$ 3.8**	$ 4.0	$ 1.7
(b) includes investment in unconsolidated affiliates of:	Primary Metals	**25.9**	23.7	35.5

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	**1984**	**$628.7**	**$ 3.3**	**$ 54.7**	**$452.6**
	1983	553.0	2.8	47.0	385.1
	1982	484.3	2.6	8.1	382.9
Western Europe	**1984**	**138.0**	**.5**	**6.9**	**66.9**
	1983	143.1	.2	(10.5)	95.9
	1982	159.6	.5	(2.0)	115.2
All Other Foreign	**1984**	**78.4**	**1.1**	**10.1**	**52.1**
	1983	67.4	.2	8.4	49.7
	1982	68.5	.2	6.8	57.7
Corporate Items/Eliminations	**1984**	**—**	**(4.9)**	**(.2)**	**111.0**
	1983	—	(3.2)	(4.2)	143.2
	1982	—	(3.3)	(2.1)	100.0
Consolidated	**1984**	**845.1**	**—**	**71.5**	**682.6**
	1983	763.5	—	40.7	673.9
	1982	712.4	—	10.8	655.8

NOTE 14—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:

	1984	1983	1982
		(in thousands)	
Working capital	**$ 62,066**	$ 45,907	$ 46,336
Property, plant and equipment, net of depreciation and depletion	**150,852**	169,588	185,780
Other assets	**13,242**	73,047	73,813
Long-term liabilities	**64,599**	80,580	89,567
Stockholders' equity	**161,562**	207,962	216,362
Revenues	**258,539**	269,538	258,092
Net income	**41,053**	41,942	17,895
Interlake's equity in net income, after consolidating eliminations	**1,683**	9,336	2,745

NOTE 15—QUARTERLY RESULTS (UNAUDITED)

Due to the disposal of the silicon metal and ferroalloy business, 1984 and 1983 quarterly financial statements have been restated to conform to the 1984 year-end presentation.

Quarterly results of operations for 1984 and 1983 were as follows:

	1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
1984	(in millions except per share data)			
Net sales of continuing operations	**$212.5**	**$220.7**	**$211.8**	**$200.1**
Gross profit	**42.4**	**48.8**	**45.5**	**43.4**
Income from continuing operations	**7.2**	**10.0**	**9.8**	**9.6**
Income (loss) from discontinued operations	**(.3)**	**.2**	**.3**	**(.2)**
Net income	**6.9**	**10.2**	**10.1**	**9.4**
Earnings per share—				
continuing operations	**1.28**	**1.83**	**1.81**	**1.76**
discontinued operations	**(.05)**	**.05**	**.06**	**(.06)**
net income	**1.23**	**1.88**	**1.87**	**1.70**
1983				
Net sales of continuing operations	$182.7	$188.2	$185.0	$207.6
Gross profit	32.6	34.2	40.3	46.0
Income from continuing operations	2.0	3.7	7.2	11.5
Income (loss) from discontinued operations	(1.1)	(.1)	(.4)	—
Net income	.9	3.6	6.8	11.5
Earnings per share—				
continuing operations	.35	.64	1.24	1.99
discontinued operations	(.20)	(.02)	(.06)	—
net income	.15	.62	1.18	1.99

Net income in the fourth quarter of 1984 included charges of $.3 million arising from the disposal of the silicon metal and ferroalloy business (see Note 9).

Pension expense adjustments increased income from continuing operations by $1.5 million in the fourth quarter of 1984, and by $1.7 million and $2.3 million in the third and fourth quarters of 1983, respectively, (see Note 10).

Income from continuing operations in the fourth quarter of 1983 was reduced by $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 income from continuing operations by $5.4 million (see Note 7).

SELECTED FINANCIAL DATA

	1984	1983	1982	1981	1980
	(dollars in thousands except per share data)				
For the Year					
Net sales of continuing operations	**$845,087**	$763,549	$712,406	$921,187	$972,439
Income from continuing operations before unusual items and taxes on income	**$ 71,548**	$ 42,840	$ 9,533	$ 70,307	$ 51,590
Unusual items	**—**	(2,100)	1,300	—	(37,000)
Income from continuing operations before taxes on income	**71,548**	40,740	10,833	70,307	14,590
Provision for income taxes	**31,793**	14,276	2,046	26,899	3,405
	39,755	26,464	8,787	43,408	11,185
Minority interest in net income of subsidiary	**3,204**	2,074	1,210	1,589	737
Income from continuing operations	**36,551**	24,390	7,577	41,819	10,448
Income(loss) from discontinued operations	**—**	(1,566)	(1,825)	4,758	3,370
Net income	**$36,551**	$22,824	$5,752	$46,577	$13,818
Earnings per common share					
Income from continuing operations	**$6.68**	$4.22	$1.21	$6.82	$1.73
Net income	**6.68**	3.94	.92	7.59	2.29
Cash dividends per common share	**2.60**	2.60	2.60	2.40	2.20
At Year End					
Working capital —amount	**$164,336**	$202,860	$175,891	$199,803	$181,145
—current ratio	**2.0 to 1**	2.2 to 1	2.1 to 1	2.2 to 1	2.0 to 1
Total assets	**$682,574**	$673,930	$655,792	$710,217	$703,618
Long-term debt, less current maturities	**112,898**	115,994	122,338	126,618	133,020
Common shareholders' equity —amount	**323,264**	327,401	323,251	358,748	336,707
—per common share	**59.13**	56.12	56.63	58.06	55.30

1984 was a 53-week year while all other periods were 52-week years.

1983 and prior years have been restated to present as discontinued operations the operating results of the silicon metal and ferroalloy business, which was sold during 1984.

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 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 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 30, 1984

	(in thousands)
Income from continuing operations as reported	$ 36,551
Current cost adjustments:	
—cost of goods sold	(1,368)
—depreciation and amortization expense	(17,052)
Income from continuing operations at current cost	$ 18,131
Gain from decline in purchasing power on net amounts owed	$ 2,880
Increase in general price level of inventories and property, plant and equipment held during the year	$ 19,779
Effect of increase in current cost*	8,714
Excess of increase in the general price level over the increase in current cost	$ 11,065
Aggregate foreign currency translation adjustment as reported	$(12,483)
—in current cost	$(16,646)

*At December 30, 1984 current cost of inventory was $213.5 million and current cost of property, plant and equipment, net of accumulated depreciation was $383.2 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

	1984	1983	1982	1981	1980
	(dollars in thousands except per share data)				
Net sales of continuing operations					
—as reported	**$845,087**	$763,549	$712,406	$ 921,187	$ 972,439
—in constant dollars	**845,087**	795,534	765,861	1,015,384	1,225,005
Income (loss) from continuing operations					
—as reported	**36,551**	24,390	7,577	41,819	10,448
—in current cost	**18,131**	4,845	(27,732)	24,355	(41,842)
Income (loss) per common share from continuing operations					
—as reported	**6.68**	4.22	1.21	6.82	1.73
—in current cost	**3.31**	.83	(4.43)	3.97	(6.93)
Cash dividends per common share					
—as declared	**2.60**	2.60	2.60	2.40	2.20
—in constant dollars	**2.60**	2.71	2.80	2.74	2.77
Market price per common share at year-end					
—as reported	**44.50**	44.25	31.25	33.88	27.75
—in constant dollars	**44.10**	45.31	33.09	37.42	33.39
Net assets at year-end					
—as reported	**323,264**	327,401	323,251	358,748	336,707
—in current cost	**563,917**	627,569	660,641	748,409	761,272
Aggregate foreign currency translation adjustments					
—as reported	**(12,483)**	(7,521)	(11,969)	(15,575)	—
—in current cost	**(16,646)**	(10,788)	(16,544)	(23,226)	—
Gain from decline in purchasing power on net amounts owed	**2,880**	3,720	5,527	12,483	23,766
Excess of increase in the general price level over the increase in current cost	**11,065**	13,334	12,818	12,103	37,489
Average consumer price index (1967 = 100.0)	**310.9**	298.4	289.2	272.4	246.8

In 1982 and 1980, liquidation of LIFO inventory quantities required an adjustment to current cost of goods sold of $13.4 million and $19.3 million, respectively, in 1984 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 30, 1984 were approximately 143 million net tons of iron ore and 15 million net tons of metallurgical coal. In 1984 the price per ton for this iron ore and coal was $36.93 and $42.52, 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 30, 1984 the number of record holders of the Company's common stock was approximately 15,500.

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

	1984			1983		
	Price		**Per Share Cash Dividends**	Price		Per Share Cash Dividends
	High	**Low**	**Paid**	High	Low	Paid
Calendar Quarter Ended						
March 31	**$50**	**$41¾**	**$.65**	$38	$31¾	$.65
June 30	**51⅛**	**46½**	**.65**	37⅞	34	.65
September 30	**47⅝**	**44**	**.65**	44¼	36½	.65
December 31	**48**	**41**	**.65**	44¾	41	.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.

DIRECTORS

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]

Arthur G. Hansen,
Chancellor,
The Texas A&M
University System [1984]

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
(telecommunications and
electric utility) [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 Executive Officer,
Ceco Industries, Inc.
(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 and Chief
Executive Officer,
McGraw-Edison Company
(manufacturer of electrical
and mechanical products
and related services
for utility, industrial,
commercial and
automotive applications
worldwide) [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.

OFFICERS 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

Daniel J. Brimm
President
Chem-tronics, Inc.

Hal L. Harman
Group Vice President—
Castings

Stephen Hinchliff
Chairman of the Board
Dexion-Comino
International, Ltd.

Brian W. H. Marsden
President
Iron and Steel Division

Ralph J. Olson
President
Material Handling and
Storage Products Division

Alfred G. Ward
President
Acme Packaging Division

Ian A. White
President
Hoeganaes Corporation

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