1985 Annual Report

Annual Meeting
Shareholders are invited to attend the Company's 1986 Annual Meeting at 10:00 A.M. (Eastern Standard Time) on Thursday, April 24, 1986, at the Harbour Island Hotel, 725 South Harbour Island Boulevard, Tampa, Florida. Proxy statements will be mailed in the latter part of March.

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

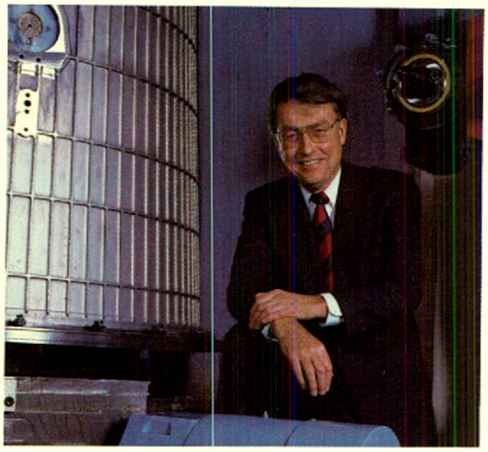
Form 10-K Available
Copies of the Company's 10-K Annual Report to the Securities and Exchange Commission are available upon request. Shareholders desiring a Form 10-K or additional information about Interlake should address their inquiries to: Secretary, Interlake, Inc., 2015 Spring Road, Oak Brook,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

Financial Highlights

Interlake, Inc.

For The Year (in thousands)	1985	1984	1983
Net sales from continuing operations	**$850,173**	$845,087	$763,549
Income from continuing operations	**28,181**	36,551	24,390
Capital expenditures	**41,447**	22,843	15,829
At Year-End (in thousands)			
Current ratio	**1.9 to 1**	2.0 to 1	2.2 to 1
Total debt	**$125,882**	$122,294	$128,513
Shareholders' equity	**351,753**	323,264	327,401
Shares outstanding	**5,598**	5,467	5,834
Per Share Statistics			
Income from continuing operations	**$ 5.07**	$ 6.68	$ 4.22
Cash dividends declared or paid	**2.60**	2.60	2.60
Shareholders' equity at year-end	**62.84**	59.13	56.12

Contents



Frederick C. Langenberg by a five-axis, computerized machining center and a Unistructure® titanium duct for a jet engine.

TO OUR SHAREHOLDERS AND EMPLOYEES:

Interlake's emphasis on technology driven activities gained substantial momentum in 1985, while satisfactory earnings were maintained in the process.

Structural change has been in progress at Interlake for several years now, and the pace accelerated during 1984 and 1985. In 1984, we purchased Chemtronics, a rapidly growing manufacturer of precision jet engine components, and sold a silicon metal/ferroalloy business. In 1985, we purchased majority ownership of Conco-Tellus, a leading automated guided vehicle producer, and the die casting business was sold.

The repositioning that has been achieved thus far will benefit Interlake shareholders both in the short and long term. The divested operations either were in mature industries or were not an appropriate fit with Interlake's technical objectives. They have been replaced with businesses that offer prospects for better than average growth and improved returns.

The largest restructuring step to date, however, is in Interlake's immediate future.

Shareholders to Vote on Reorganization Proposal

On February 27, 1986, Interlake announced a proposal to reorganize the company. The reorganization proposal involves the creation of a new company to be known as "The Interlake Corporation" which would be a holding company owning the various operating subsidiaries of the company. The existing corporation (Interlake, Inc.) would be renamed "Acme Steel Company" and would retain only the iron, steel and domestic U.S. steel strapping businesses. All other portions of the present Interlake would be transferred to separate subsidiaries of the new company.

Each share of present Interlake, Inc. common stock would be converted into one share of common stock of the new holding company, The Interlake Corporation. It is planned that The Interlake Corporation shares would be listed on the New York Stock Exchange.

The proposal is subject to several conditions, including shareholder approval and receipt of appropriate tax rulings.

The reorganization proposal will be submitted to shareholders for approval at the annual meeting April 24 in Tampa, Florida. Proxy materials will be mailed to shareholders of record as of March 17, 1986.

It is now intended that, as soon as possible after the reorganization is completed, The Interlake Corporation (the new holding company) will spin off, to its stockholders, Acme Steel Company (comprised of the iron, steel and domestic U.S. steel strapping businesses). While this is our goal, the final decision with respect to the spin-off will be made by the Board of Directors of The Interlake Corporation after the reorganization is completed, based on circumstances as they then exist.

1985 Results

Income from continuing operations for the fiscal year ended December 29, 1985, was $28.2 million, or $5.07 per share, compared to $36.6 million, or $6.68 a share in 1984. Sales in 1985 were $850.2 million and in 1984 were $845.1 million.

Fourth quarter income from continuing operations was $7.9 million, or $1.41 a share, compared to $9.6 million, or $1.76 a share in 1984. Fourth quarter sales were $224.8 million, compared to $200.1 million for the same period a year ago.

While 1985 earnings were lower than 1984, most of Interlake's businesses continued to perform well. Earnings increased for the third consecutive year in 1985 for the businesses which will be retained by The Interlake Corporation if the proposed spin-off occurs.

Interlake businesses which did best in 1985 are those serving markets targeted by Interlake's developing technologies. Aerospace components and other special materials, along with worldwide handling and packaging operations, all displayed strength.

An Aerospace Group was formed, which includes chemically milled components from Chem-tronics and investment castings made by Arwood and Duradyne. Interlake has committed major resources and technical know-how to meeting the critical requirements of aerospace producers in coming years.

Chem-tronics, which uses proprietary technology to produce ultralight jet engine ducts and cases, experienced a 60% increase in backlogs within 12 months after joining Interlake. The increase stems from scheduled, multi-year military jet engine procurement programs for the F-16 and F-18 fighters and the B1-B bomber. Orders for commercial engine components were steady in 1985. To accommodate rapid market growth, a multi-year program to double the El Cajon, California, plant's capacity and enhance its production quality was begun during the year.

Investment casting shipments were relatively stable. The non-ferrous operations at Tilton and Franklin, New Hampshire, received a major quality award from McDonnell Douglas during the year. An additional plant to produce large precision castings will be completed this spring at Groton, Connecticut. Cleveland added vacuum melting capability in 1985 in order to cast aerospace superalloys. Structural and airfoil investment cast components for the aerospace industry continue to be major portions of our casting business.

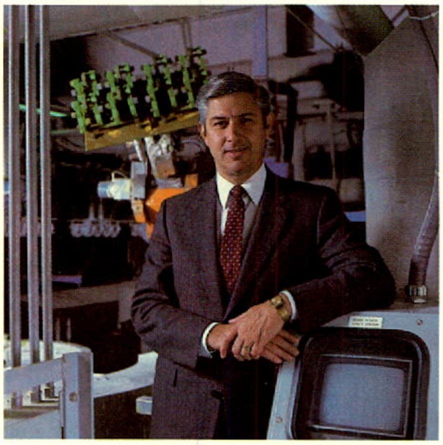
Hoeganaes Corporation, also in the special materials segment, had a good year despite lower shipments primarily related to the appliance and agricultural equipment industries. In 1985 Hoeganaes achieved significant results in developing new high performance metal powders. These high-compressibility powders result in parts which perform far better in high stress environments. In addition, developments in process technology contributed to the introduction of new blends of powders with superior strength-to-weight ratios.

Domestic and international material handling businesses improved both in storage products and systems. Interlake is committed to worldwide growth in this technically evolving field, as production, inventory and distribution methods become more automated. We are increasing our handling leadership in major industrial markets—the United States, the United Kingdom, the European Continent, Australia and the Far East.

Early last summer, Interlake acquired a major position in the rapidly growing field of Automated Guided Vehicle Systems (AGVS) with the purchase of majority ownership in Conco-Tellus, Inc. from Industri Ab Euroc of Sweden. Located in Mendota, Illinois, Conco-Tellus is a technology leader and a major supplier in this rapidly growing field of automation. Conco-Tellus presently is equipping a General Motors light truck assembly plant in Oshawa, Ontario, with 425 vehicles—one of the largest AGVS installations in North America.

The addition of AGVS complements Interlake's other products which are combined into handling systems. By offering AGVS and other new products such as mini-automated storage and retrieval systems (mini-AS/RS) and lineshaft conveyors, Interlake doubled its orders last year for multi-million-dollar integrated handling systems.

In the United Kingdom, Interlake's Dexion subsidiary is that nation's largest single-source supplier of storage and handling technology. In 1985 Dexion received the country's largest-ever contract for an automated storage and handling system from the British Ministry of Defense. The Courier®



Edward D. Hopkins near a robot which applies a ceramic coating to patterns for high-precision investment castings.

cranes, aisle transfer cars, an automatic conveyor network and automated guided vehicles will serve ten high bay warehouses and almost 100,000 pallet storage locations.

Interlake's packaging businesses in the U.S., Canada and England experienced substantial growth in sales of packaging equipment and systems. Plastic strapping sales increased in all markets, and new products in both polypropylene and higher strength polyester were developed in the United States. Domestic steel strapping tonnage and margins declined slightly.

The primary metals segment sustained a loss in 1985, as revenues were curtailed by severe selling price discounts in a highly competitive marketplace. In these operations, Interlake has stressed cost controls, quality improvement and selective technology-based investments, aimed at further reducing production costs while broadening the range of specialized products.

Human Resources

Throughout this repositioning period, Interlake management continues to emphasize productivity, human resource development and cost controls. New computer aided design equipment, in the hands of skilled employees, is generating notable productivity gains at plants that manufacture jet engine components and material handling and packaging products. Our human resources continue to be developed through new programs that are being introduced and implemented. Special emphasis has been placed on management planning and development.

At the beginning of 1986, more than 1,000 salaried employees became the first participants in a flexible benefits program. The program enables employees to select health, life and survivorship benefit options that meet their individual and family needs, while also enabling the company to better control its benefit costs.

Interlake operations and unions representing 2,000 employees reached six new labor agreements in 1985, reflecting deep mutual concerns for improving competitiveness. Ten more labor agreements to be negotiated in 1986 will affect 2,500 employees, including almost 1,300 employees at the Riverdale, Illinois, steelmaking plant, where a one-year contract was approved in 1985. In an industrial environment where competition is worldwide, it is essential that the progress of 1985 be repeated in 1986.

Financial Strength

Interlake's excellent financial strength continues to be the foundation for the company's repositioning and for increasing capital expenditures. Cash and equivalents at the end of 1985 rose to $83.3 million from $47.1 million a year before. Annual dividends were maintained at $2.60 per share.

Capital spending in 1985 increased by more than 80 percent, to $41.4 million. Of this total, $17.4 million was spent for expansion projects, $16.6 million for replacement and improvement and $7.4 million for cost reductions and environmental control.

Major technology-based projects included:

- A new large castings plant in Groton, Connecticut, which will be completed by mid-year. It will serve aerospace markets and will be capable of producing some of the largest precision castings in the industry.
- At Chem-tronics in El Cajon, California, five new advanced programmable machining centers are in production, supported by automated precision production and quality testing equipment. The expansion has doubled Chem-tronics' output of jet engine ducts and cases.
- In the first five months after Conco-Tellus became part of Interlake, a complete new AGV production line was installed and operating.
- The Iron and Steel Division started up an automated slab grinder, improving the surface quality of certain critical steel products. Further quality, productivity and product range improvements are expected

with the installation this spring of a "coil box" at the hot strip mill. It is the first of its kind in the U.S.

- Arwood's Franklin, New Hampshire, investment casting plant was modified to add aluminum castings to the existing magnesium capability, and the Cleveland plant installed a new vacuum furnace for superalloys.
- Acme Packaging continues to install advanced machine tools at strapping and stitching machine manufacturing plants in Sumter, South Carolina, and Racine, Wisconsin.

Board Changes

Membership of Interlake's Board of Directors has changed since the last annual report. In keeping with Board retirement policy, Lee C. Shaw did not stand for reelection. Mr. Shaw served with distinction for 36 years as a director of Interlake and a predecessor company, Acme Steel. Edward A. Loeser, 58, senior vice president—operations, Rockwell International Corp., was elected a director in July.

Also in keeping with Board retirement policy, Eugene P. Berg, chairman of the board of Automatic Spring Coiling Co., and Morris H. Wright, retired investment banker, will not stand for re-election at the 1986 annual meeting. Mr. Berg became an Interlake director in 1964, and Mr. Wright in 1963. We extend our deepest appreciation to these executives for their dedicated service.

The Year Ahead

Interlake's aerospace and material handling systems businesses entered 1986 with the strongest backlogs ever. Metal powders should benefit from the recovery of non-automotive markets. While the national economic outlook is uncertain, Interlake has assumed modest growth through the year in most of our business plans. Under such conditions, Interlake will continue to improve its competitiveness. The further application of process technology in 1986 will add to our competitive, quality products.

We are continuing to research different technologies and to investigate new markets which offer growth and good returns, and which complement our present products and processes.

Interlake is a technology driven company oriented to producing and processing specialized industrial materials, and to providing advanced material handling and packaging solutions. We emphasize state-of-the-art methods to create products custom-tailored to market needs. We will be competitive in our markets against all competition, foreign or domestic. Interlake's product and process technologies are being extended through research, development, new applications and capital investment.

Frederick C. Langenberg

Frederick C. Langenberg
Chairman and Chief Executive Officer

Edward D Hopkins

Edward D. Hopkins
President and Chief Operating Officer

February 27, 1986

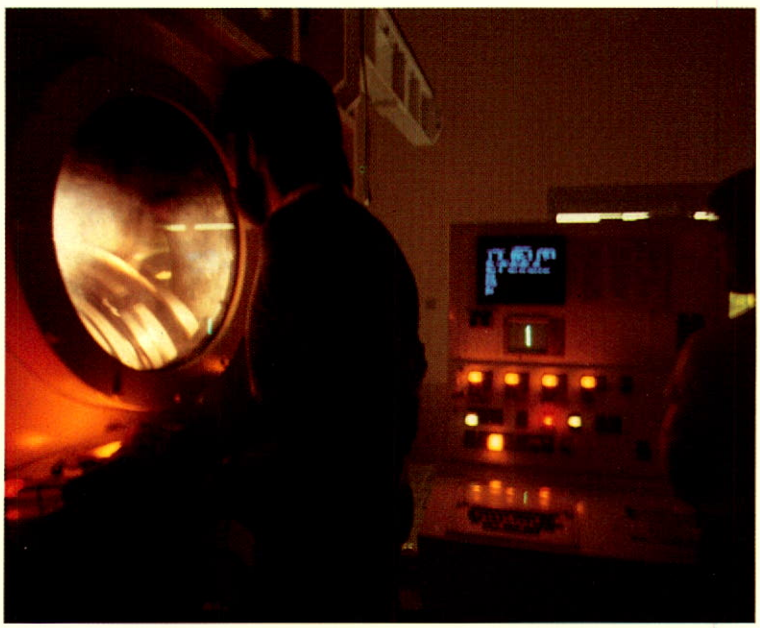
Technology Driven Interlake

Interlake's newly created Aerospace Group includes chemically milled components and investment castings.

Some of the industry's largest investment castings will be made at this new plant, nearing completion in Groton, Connecticut.

Interlake supplies more than 250 parts for the BI-B bomber—one of the multi-year military programs generating substantial gains in aerospace component sales.

This new automated electron beam welder has been installed to help Interlake double its capacity for producing jet engine ducts and cases.

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Technology Driven Interlake

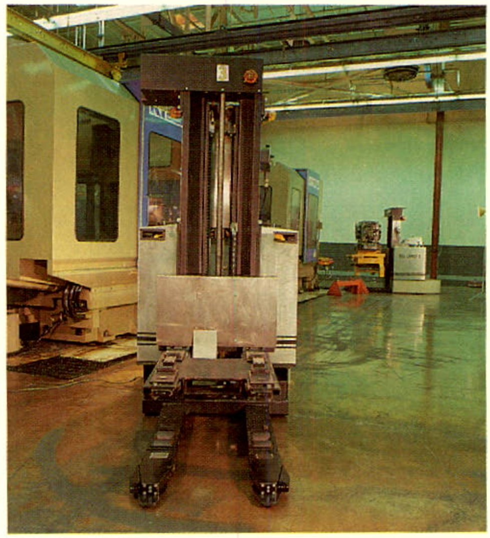
(continued)

Interlake is committed to worldwide growth in handling and storage systems.

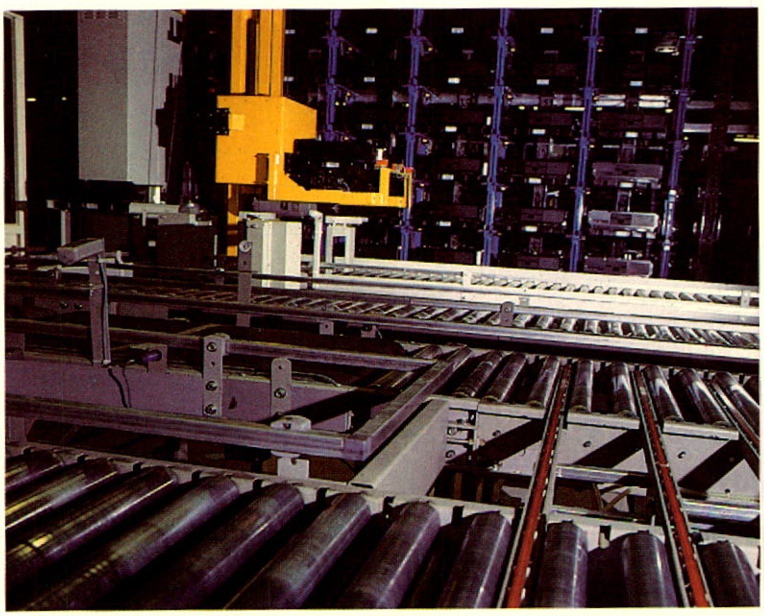
This automated guided vehicle is one of 425 bound for a General Motors light truck assembly plant in Oshawa, Ontario.

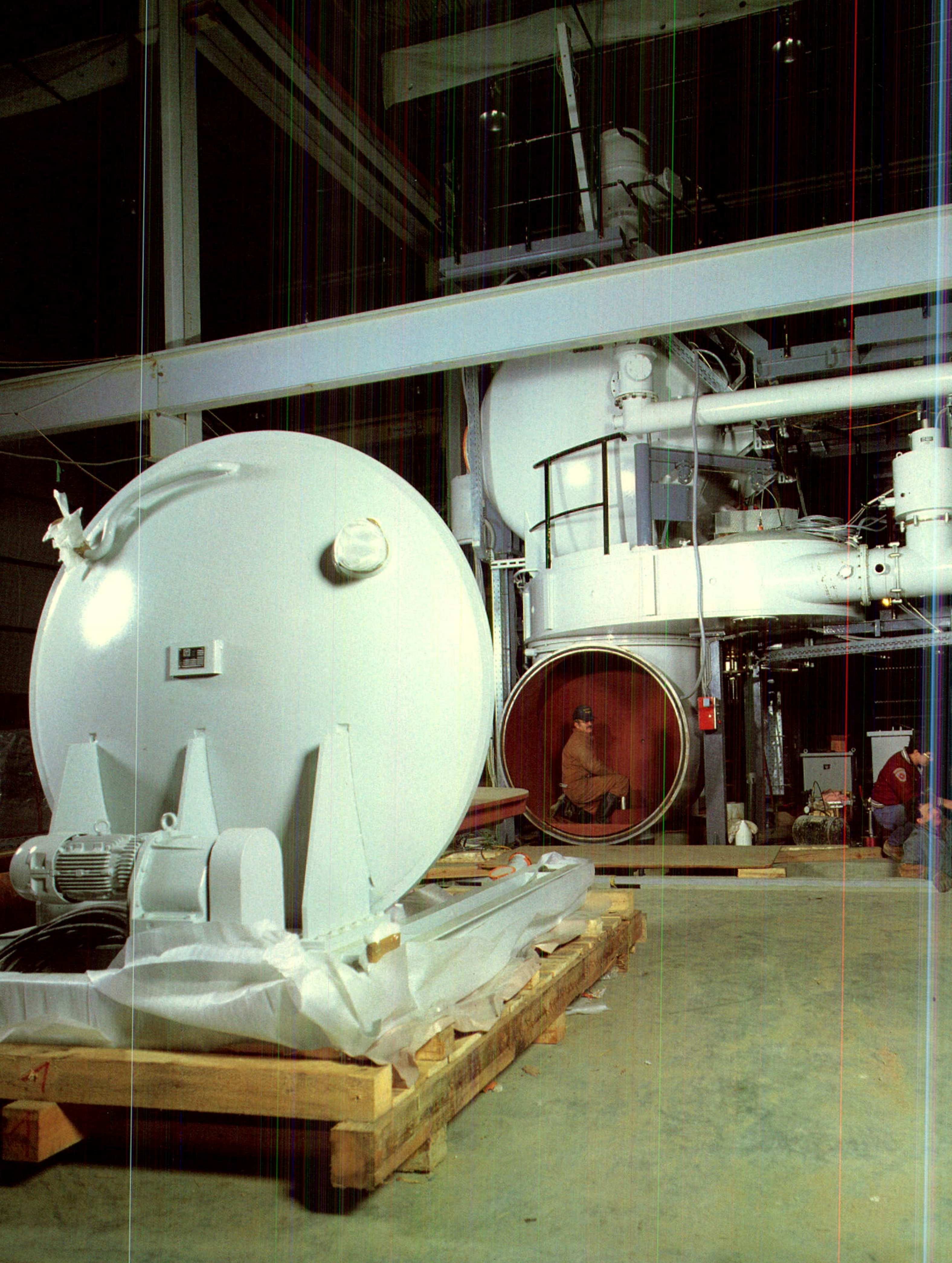
Interlake's storage products improve efficiency at this Canadian warehouse.

These computerized Interlake AGVs support six computerized machining centers—flexible manufacturing in action at Cummins Engine in Columbus, Indiana.



IBM personal computer manufacturing in Greenock, Scotland, uses a specially designed automated and integrated handling and storage system from our British subsidiary.





Technology Driven Interlake

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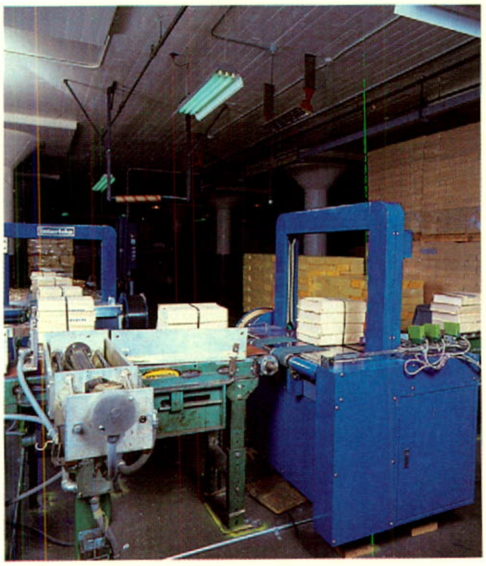
Interlake's product and process technologies are being extended.

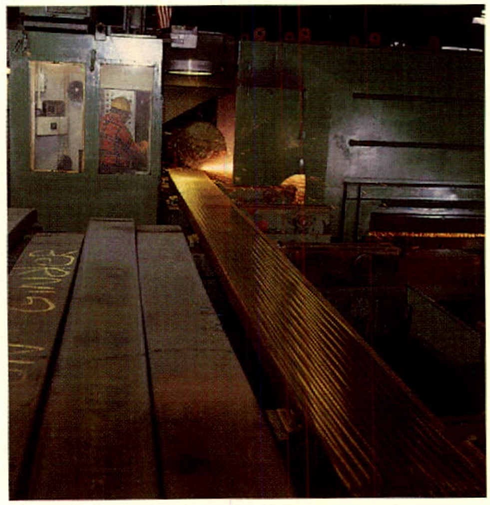
Interlake is installing the biggest commercially available vacuum melting furnace to produce large investment castings at the new Groton, Connecticut plant.



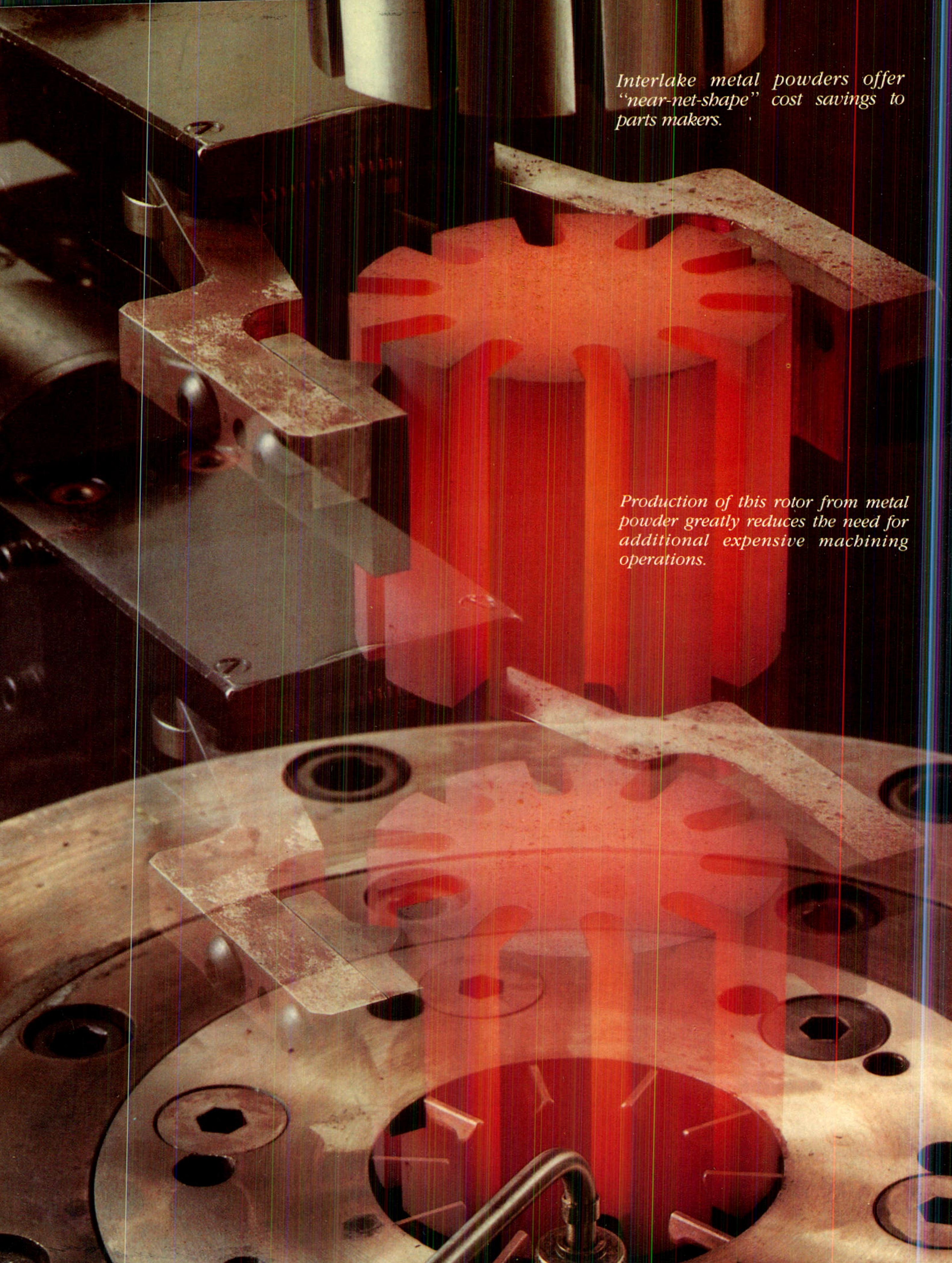
Automatic F20 plastic strapping machines bind Official Airline Guides *for shipment at the Times Mirror Corporation's Los Angeles printing plant.*

In our El Cajon plant, this computer-driven coordinate measuring machine can perform 600 precise dimensional checks on a jet engine duct in an hour.

An automated slab grinder, purchased by Interlake in 1985, improves the surface quality of steel being processed for demanding customer applications.



A steady stream of packaging solutions from our strapping company in the United Kingdom helps customers in more than 30 countries save time and money.



Interlake metal powders offer "near-net-shape" cost savings to parts makers.

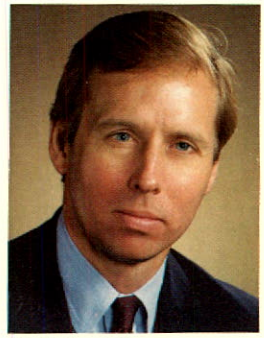
Production of this rotor from metal powder greatly reduces the need for additional expensive machining operations.

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

Interlake has taken several recent actions, which reflect the redefined strategy of the Company:

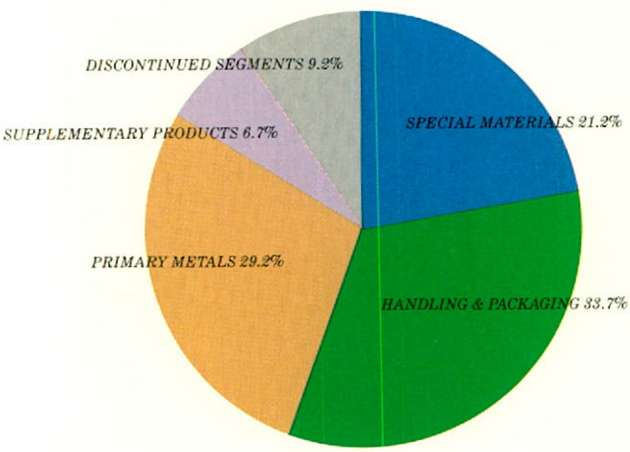
- In November, 1984, the silicon metal/ferroalloys business segment, which produced basic metals primarily for use by the steel, aluminum, and chemical industries, was sold.
- In December, 1984, a producer of jet engine components with good growth prospects was acquired.
- In July, 1985, a 60% interest in a producer of automated guided vehicles, a leader in an expanding advanced technology field, was acquired.
- In November, 1985, the die casting business, which produced basic metal forms, was sold.

As a result, the total assets used in operations have shifted out of more capital intensive, mature businesses (Primary Metals, 24% in 1985 from 29% in 1983) to higher return, higher growth businesses (Special Materials, 35% in 1985 from 21% in 1983).

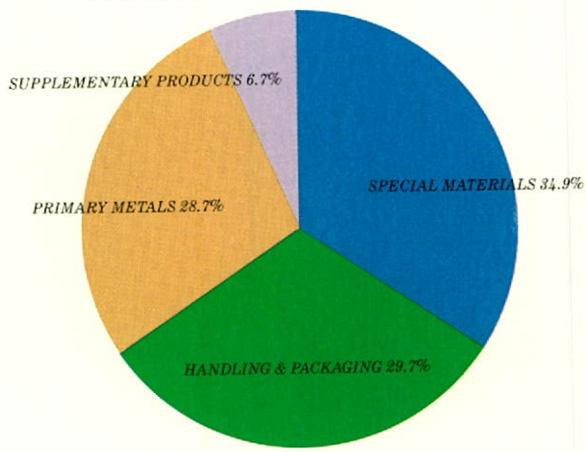


W. Robert Reum, Vice President —Finance & Chief Financial Officer

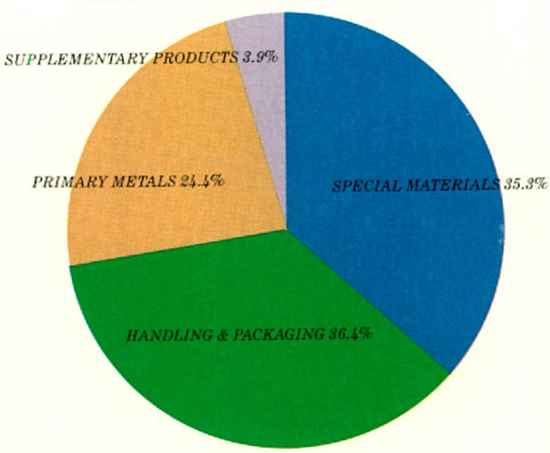
ASSETS EMPLOYED IN OPERATIONS 1983



ASSETS EMPLOYED IN OPERATIONS 1984



ASSETS EMPLOYED IN OPERATIONS 1985



In 1985, the positive impact of these actions was dampened primarily by a sharp contraction in the markets for iron and steel products. Therefore, Interlake's consolidated sales from continuing operations of $850.2 for 1985 exceeded 1984's level ($845.1) only slightly. Income from continuing operations of $28.2 ($5.07 per share) declined from $36.6 ($6.68 per share) for 1984. 1985 net income benefited by $1.1 ($.19 per share) from the liquidation of lower cost LIFO inventories produced in prior years. Interlake's strong financial position continued to improve in 1985.

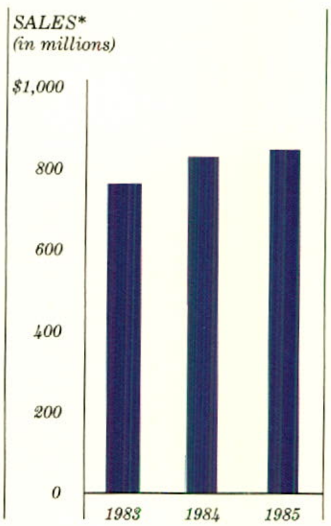
1984 results reflected a continuation of the economic recovery which began in 1983. Sales improved by 11% and income from continuing operations by 50% from 1983's level. All business segments had higher sales in 1984, and all but Primary Metals had improved operating profits.

Subsequent Event

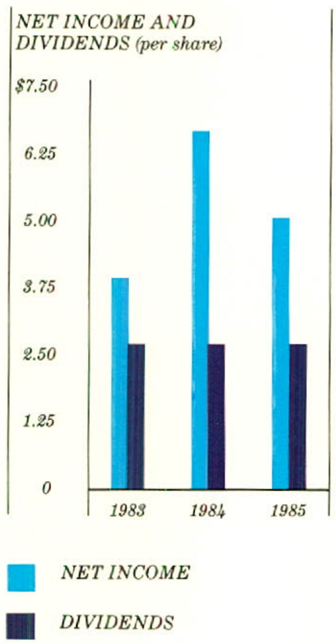
Most recently the Interlake Board proposed a reorganization of the Company which, among other things, will establish a new holding company for the various businesses of the Company. Under the new structure substantially all of the businesses of the Company, except the iron, steel and domestic steel strapping business, will be held in separate companies. The iron, steel and domestic steel strapping business will remain with the Company, whose name will be changed to Acme Steel Company. The Board indicated that, following the reorganization, it is intended that the shares of Acme Steel Company be distributed to the shareholders of the holding company (see Note 15 of the Notes to Consolidated Financial Statements).

Business Segment Review

A description of the product groupings included in each segment is shown in Note 12 of Notes to Consolidated Financial Statements.



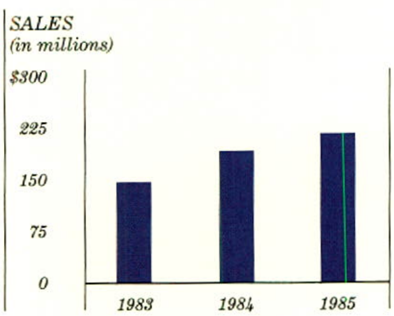
*of continuing operations



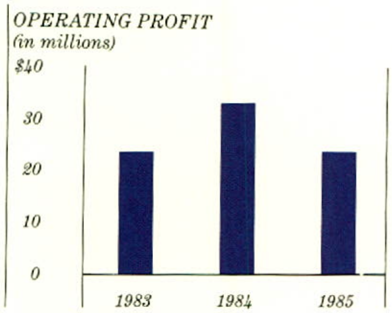
Special Materials

Sales in 1985 were 15% higher for the Special Materials segment than in 1984. The acquisition of the jet engine components business in December, 1984 was the primary cause for the sales increase.

- Sales of investment castings declined 3% in 1985. Demand from the military and commercial aerospace markets was strong, but there was a temporary slowdown in investment casting orders caused by a tightening of military procurement procedures.
- Sales of metal powders were down 14% from the record high year in 1984. Metal powder users who supply components to the U.S. automotive industry reduced inventories in 1985, causing a slight decline in their metal powder purchases. However, most of the drop in metal powder sales resulted from other durable goods industries, which had downturns in 1985. These industries, including farm and construction equipment, tools, and appliances, encountered increased competition from foreign imports.



Operating profit of the Special Materials segment was down 31% from 1984. Airfoil castings incurred an operating loss in 1985 which necessitated restructuring actions to improve future profitability. The operating loss and one-time charges associated with the restructuring actions severely impacted segment income. In addition, income from metal powders declined in line with the decline in sales volume. The income benefit in 1985 from the jet engine components business was reduced by high, first year purchase accounting adjustments.



Segment sales for 1984 had increased 25% from 1983, primarily due to strong demand from the automotive and military aerospace markets. Operating profit of Special Materials for 1984 rose 42% from 1983, due to higher operating levels, stable material costs, and cost reduction efforts.

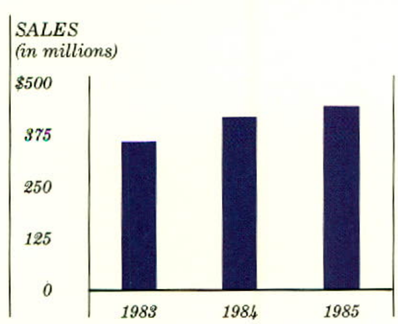
Based on current order backlogs, the outlook for 1986 is good for Special Materials. Backlogs rose to $201 at the end of 1985 from $151 the prior year-end.

Handling and Packaging

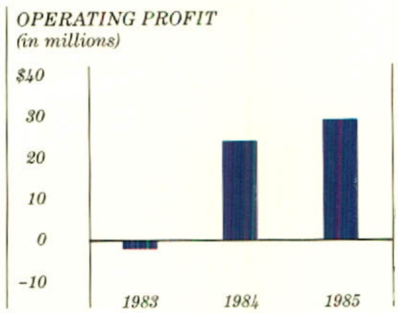
Total sales of Handling and Packaging products advanced by 7% in 1985. For purposes of analysis, the products of this segment are divided into:

- equipment and systems
- consumable products (steel and non-metallic strapping and stitching wire).

In 1985, there was a sharp increase in demand for more automated, integrated factory/distribution systems. As a result, equipment and systems experienced a sales increase of 12%. The demand for consumable products varies in line with industrial production in general and experienced some softness in 1985. Consumable product sales declined by 2% in 1985.



Operating profit of this segment was 21% above 1984, resulting primarily from higher sales volume. 1985's results also benefited by $1.2 from the liquidation of lower cost LIFO inventories produced in prior years. Average prices received for domestic products declined slightly. However, selling prices improved at certain foreign locations.

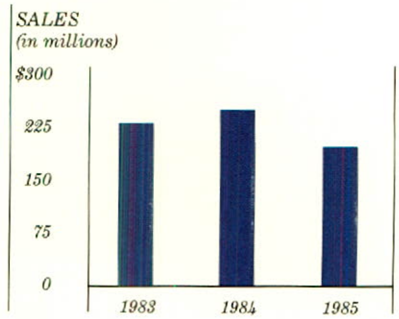


Handling and Packaging experienced a 12% sales gain in 1984 over 1983 due to an improvement in capital goods markets and a general increase in U.S. manufacturing activity. 1984's operating profit was up substantially from a small loss in 1983 because of better operating volumes, a firming of prices in Canada and the U.K., and a 1983 provision of $10.5 for restructuring European operations.

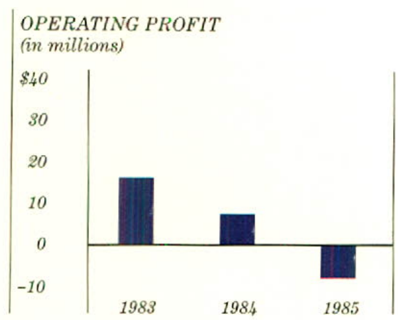
Prospects for 1986 are good for this segment, particularly for equipment and systems, based on significant increases in order backlogs ($128 versus $61 at the previous year-end).

Primary Metals

The Primary Metals segment, because of foreign competition and a leveling off of U.S. industrial production in 1985, had a 19% drop in sales from 1984. Steel sales were down 17%, as the U.S. steel producers' market share continued to shrink because of increasing foreign imports of steel and steel fabricated products. Average prices received for steel products fell 6% in 1985 because of increased competition from foreign and domestic suppliers. In 1985, U.S. steel companies operated at a low level of capacity (65%). Sales of iron products dropped 32%, primarily due to lower demand for hot metal by an ingot mould producer. The lower demand for ingot moulds reflects both the decline in U.S. steel production and a gradual shift to the continuous casting method of producing steel.



These factors, combined with lower production levels, yielded a loss in 1985 after a small profit in 1984, despite significant cost reduction and cost containment achievements. This segment also benefited by $.9 in 1985 from the liquidation of lower cost LIFO inventories produced in prior years. The LIFO benefit partially offset the fixed-cost penalties of operating at lower rates of production in 1985.

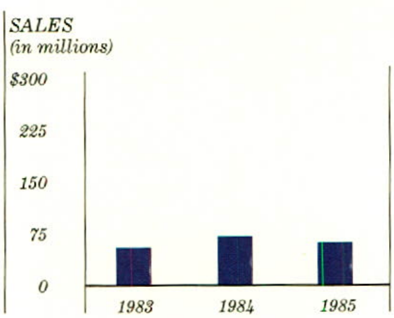


Primary Metals' 1984 sales were 7% better than 1983. Steel sales were up 24%, but iron sales were down 40%. Imports affected the level of steel sales more in the second half of 1984, when U.S. economic growth slowed. Operating profit for 1984 declined 60% from 1983 due to a blast furnace rehabilitation in 1984 and in 1983 an $8.4 favorable adjustment to a 1980 shutdown provision.

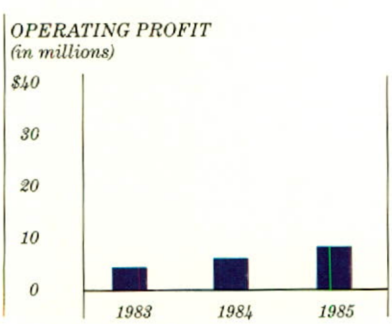
Primary Metals expects a continuing difficult marketplace in 1986. A slight improvement might occur, depending on the effectiveness of government agreements to curb the record level of primary metal imports in recent years.

Supplementary Products

Sales for 1985 were down 3% from 1984 as a result of the divestiture of the die casting business in early November, 1985 and a reduction in sales of welding and friction powders. Offsetting most of the decline was the addition of a jet engine blade repair service in 1985.



Operating profit of this segment was 33% higher in 1985 due to the $1.9 gain on the disposition of the die casting business, partly offset by reduced margins for other products in 1985.



Interest Expense and Interest Income

Interest expense rose 19% in 1985, principally through assumption of the debt of acquired companies. Interest income declined 22% in 1985 because of lower funds available for short-term investments as a result of acquisition activity. For 1984, interest expense declined 11% from the prior year, primarily due to reduced debt. Interest income rose 66% in 1984 because of higher interest rates and invested funds.

Preferred Stock Dividend

In 1985, dividend income of $1.9 was reported on preferred stock received as part of the proceeds of the sale of the Globe Metallurgical Division in late 1984.

Non-Operating Items

Non-operating items, consisting primarily of gains on the sale of capital assets and royalty income, improved by $6.6 in 1985. Gains on 1985 asset dispositions (including the die casting business) were the principal items contributing to the improvement. Non-operating items are reflected in the results of the related business segments.

Provision for Income Taxes

Income taxes were at effective rates of 39.2%, 44.4%, and 35.0% in 1985, 1984, and 1983, respectively. The 1985 rate was below 1984 because of a lower statutory tax rate in the U.K. and a higher rate of U.S. tax credits. The rate rose in 1984 because of a smaller ratio of tax credits to pretax income.

Income Per Share

Income per share from continuing operations declined 24% in 1985 after a 58% rise in 1984. Annual dividends of $2.60 per share were paid throughout the 1983-1985 period and were 49.8% of net income for the three years.

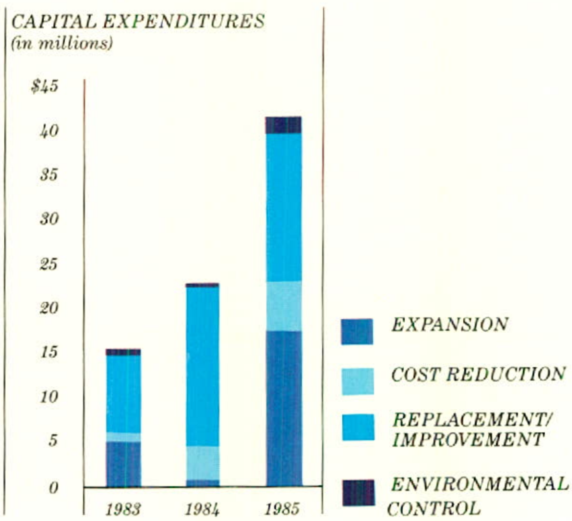
Liquidity and Capital Resources

Interlake has traditionally maintained a strong balance sheet. Key elements in the financial management of its businesses include the effective use of assets, combined with a strong equity base and a conservative debt-to-equity ratio. In recent years, the Company has relied primarily on the cash flow generated from operations to finance working capital requirements and capital expenditures, to pay dividends, and for acquisitions. However, the Company currently has available unused bank credit facilities of $122 at the end of 1985. Under the most restrictive debt covenants, the Company may borrow up to $180 of current and long-term debt.

Funds provided from continuing operations and from working capital reductions totalled $69.4, $104.7 and $59.6 in 1985, 1984, and 1983, respectively. For the three years combined, these funds were adequate to finance $80.1 of capital expenditures, $36.4 of dividends, net of reinvestments, and $57.5 of acquisitions. In addition, $25.1 of debt was retired and $21.6 was used for repurchases of common stock.

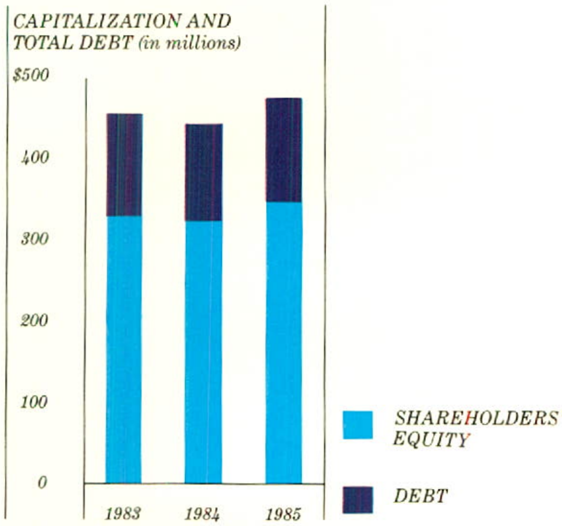
Capital investment in plant and equipment almost doubled in 1985 to $41.4. The expenditures in 1985 were concentrated in expansion ($17.4) and cost reduction ($5.9) projects, primarily in the Special Materials and Handling and Packaging segments. This reflects a major movement towards capital investment for growth, including the following significant projects:

- a new, large castings plant at Groton, Connecticut expected to be operational in mid-1986.
- overall expansion of production capacity for jet engine components.



At the end of 1985, the unexpended balance of authorized capital expenditures totalled $19.8, approximately the year-end 1984 amount. However, in 1985, the portion of funds dedicated to expansion projects rose from 34% to 65%.

The Company's working capital ratio of 1.9 to 1 at the end of 1985 compares with 2.0 and 2.2 at the end of the two prior years. The total debt-to-capitalization ratio was 26%, 27%, and 28% at the end of 1985, 1984, and 1983, respectively.



The Company intends to continue to maintain a strong balance sheet while providing for further growth internally and through selective acquisitions.

Inflation

The impact of inflation on the Company's financial condition and results of operations is discussed in "Supplementary Financial Data Adjusted for Effects of Changing Prices" appearing on page 39 of this report.

REPORT OF MANAGEMENT

The consolidated financial statements of Interlake, Inc., presented on pages 22 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, consistently applied, and include informed judgments and estimates, as required. Other financial information in this annual report is consistent with the financial statements.

Interlake's system of internal controls is 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 includes organizational arrangements with clearly defined lines of responsibility. Internal controls are monitored through recurring internal audit programs.

Price Waterhouse, independent accountants, have examined Interlake's financial statements and their opinion appears below.

The Audit Review Committee of the Board of Directors, composed solely of outside directors, determines that management is fulfilling its financial responsibilities by meeting periodically with Price Waterhouse, the internal auditors and management to review accounting, auditing, 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. 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

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 29, 1985 and December 30, 1984, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 29, 1985, 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, 1986

Interlake, Inc.

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

For the Years Ended December 29, 1985, December 30, 1984 and December 25, 1983

	1985 (52 weeks)	1984 (53 weeks)	1983 (52 weeks)
	(in thousands except per share data)		
Net Sales of Continuing Operations	**$850,173**	$845,087	$763,549
Cost of products sold	**680,516**	665,017	610,407
Gross Profit	**169,657**	180,070	153,142
Selling and administrative expense	**122,194**	106,699	106,176
Operating Income	**47,463**	73,371	46,966
Interest expense	**11,726**	9,854	11,092
Interest income	**(7,217)**	(9,241)	(5,575)
Dividend income	**(1,918)**	—	—
Nonoperating (income) expense	**(5,411)**	1,210	(1,391)
Income From Continuing Operations Before Unusual Items, Taxes on Income and Minority Interest	**50,283**	71,548	42,840
Unusual Items	**—**	—	(2,100)
Income From Continuing Operations Before Taxes on Income and Minority Interest	**50,283**	71,548	40,740
Provision for Income Taxes	**19,690**	31,793	14,276
	30,593	39,755	26,464
Minority Interest in Net Income of Subsidiaries	**2,412**	3,204	2,074
Income From Continuing Operations	**28,181**	36,551	24,390
Income (Loss) From Discontinued Operations, Net of Income Taxes	**—**	—	(1,566)
Net Income for the Year	**$ 28,181**	$ 36,551	$ 22,824
Income (Loss) Per Share of Common Stock:			
Continuing Operations	**$ 5.07**	$ 6.68	$ 4.22
Discontinued Operations	**—**	—	(.28)
Net Income	**$ 5.07**	$ 6.68	$ 3.94
Retained Earnings at Beginning of Year	**$291,422**	$268,966	$261,202
Net Income for the Year	**28,181**	36,551	22,824
	319,603	305,517	284,026
Deduct—Cash Dividends Declared or Paid ($2.60 per share)	**(14,470)**	(14,095)	(15,060)
Retained Earnings at End of Year	**$305,133**	$291,422	$268,966

(See notes to consolidated financial statements)

Interlake, Inc.

CONSOLIDATED BALANCE SHEET

December 29, 1985 and December 30, 1984

Assets	**1985**	1984
	(in thousands)	
Current Assets:		
Cash and cash equivalents	**$ 83,256**	$ 47,095
Receivables, less allowances of $3,308,000 in 1985 and $2,873,000 in 1984	**141,214**	130,113
Inventories	**121,323**	110,863
Other current assets	**25,312**	44,218
Total current assets	**371,105**	332,289
Investments and Other Assets:		
Investments in and advances to associated companies	**22,514**	25,911
Goodwill, less amortization	**29,953**	28,071
Other assets	**52,539**	55,587
	105,006	109,569
Property, Plant and Equipment, at cost:		
Land and coal properties, less depletion	**10,761**	10,883
Buildings	**105,417**	101,050
Equipment	**463,977**	447,067
Construction in progress	**13,910**	5,667
	594,065	564,667
Less—Depreciation and amortization	**(340,779)**	(323,951)
	253,286	240,716
Total Assets	**$729,397**	$682,574

Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	**$ 81,664**	$ 67,415
Accrued liabilities	**45,227**	46,395
Accrued salaries and wages	**24,069**	24,666
Income taxes payable	**18,707**	20,081
Debt due within one year	**21,600**	9,396
Total current liabilities	**191,267**	167,953
Long-Term Debt	**104,282**	112,898
Other Long-Term Liabilities:		
Post-retirement benefits	**26,891**	25,231
Other	**33,191**	28,921
	60,082	54,152
Future Income Taxes	**22,013**	24,307
Commitments and Contingencies	**—**	—
Shareholders' Equity:		
Common stock, par value $1 per share, authorized 20,000,000 shares, issued—7,158,551 shares 1985 and 1984	**126,229**	124,265
Cost of common stock held in treasury (1,560,533 shares 1985 and 1,691,392 shares 1984)	**(46,148)**	(49,795)
Retained earnings	**305,133**	291,422
Accumulated foreign currency translation adjustments	**(33,461)**	(42,628)
	351,753	323,264
Total Liabilities and Shareholders' Equity	**$729,397**	$682,574

(See notes to consolidated financial statements)

Interlake, Inc.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 29, 1985, December 30, 1984 and December 25, 1983

	1985	1984	1983
		(in thousands)	
Cash From Continuing Operations:			
Income from continuing operations	**$ 28,181**	$ 36,551	$ 24,390
Add (deduct) noncash items:			
Depreciation and amortization	**27,908**	23,098	22,590
Future income taxes	**(2,294)**	9,366	(6,259)
Other noncash items	**4,918**	5,796	5,171
	58,713	74,811	45,892
Cash From Working Capital (exclusive of acquisitions, divestitures, discontinued operations and debt)	**10,691**	29,858	13,707
Cash From Continuing Operations and From Working Capital	**69,404**	104,669	59,599
Capital Expenditures of Continuing Operations	**(41,447)**	(22,843)	(15,829)
Disposals of Property, Plant and Equipment of Continuing Operations	**1,184**	957	1,941
Other Sources (Uses) of Continuing Operations:			
Changes in exchange rates	**6,264**	(8,261)	(3,758)
All other	**6,553**	10,766	7,982
Cash From Continuing Operations Before Dividends	**41,958**	85,288	49,935
Dividends	**(14,470)**	(14,095)	(15,060)
Proceeds From Dividend Reinvestment Program	**2,715**	2,520	1,944
Cash From Continuing Operations Before Investments/Divestitures	**30,203**	73,713	36,819
Acquisitions	**(5,467)**	(52,000)	—
Divestitures	**10,481**	(711)	—
Discontinued Operations	**—**	11,694	(7,011)
Cash Before Financing	**35,217**	32,696	29,808
Financing Increase (Decrease):			
Debt due within one year	**10,575**	(8,672)	(3,363)
Long-term debt	**(9,631)**	(7,634)	(6,344)
Purchase of treasury stock	**—**	(21,625)	—
Cash Increase (Decrease) (including cash equivalents)	**$ 36,161**	$ (5,235)	$ 20,101

(See notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 29, 1985, December 30, 1984, and December 25, 1983

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 $91,523,000 and $102,678,000, at December 29, 1985 and December 30, 1984, respectively.

During 1985, 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 1985 production. As a result, cost of products sold was decreased by $1,992,000, equivalent to $.19 per share after applicable income taxes.

December 29, 1985 and December 30, 1984 inventory amounts by category were:

	1985	1984
Raw materials	**$ 34,852,000**	$ 28,091,000
Semi-finished and finished products	**70,076,000**	66,154,000
Supplies	**16,395,000**	16,618,000
	$121,323,000	$110,863,000

In 1985, 1984 and 1983 the Company made raw material purchases of $36,738,000, $57,491,000, and $41,983,000, respectively, from affiliated iron ore and coal mining interests. Amounts due to affiliated companies for such raw material purchases were $10,986,000, $12,211,000, and $17,693,000, at December 29, 1985, December 30, 1984, and December 25, 1983, 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.

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 1985 and 1984 is as follows:

	1985	1984
	(in thousands)	
Beginning balance	**$(42,628)**	$(32,482)
Adjustments from translating foreign currency financial statements at current rates	**9,167**	(12,483)
Divestiture	—	2,337
Balance at fiscal year-end	**$(33,461)**	$(42,628)

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 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 working capital (exclusive of acquisitions, divestitures, discontinued operations and debt) was comprised of:

	1985	1984	1983
		(in thousands)	
Cash From (For)			
Receivables	**$ (8,334)**	$ 34,529	$(35,856)
Inventories	**(9,334)**	17,148	23,162
Other current assets	**18,927**	(17,788)	(2,495)
Accounts payable and other accrued liabilities	**10,515**	(2,284)	12,739
Income taxes payable	**(1,083)**	(1,747)	5,891
Reclassification of accounts payable to affiliate	—	—	10,266
	$10,691	$ 29,858	$ 13,707

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 29, 1985	December 30, 1984
	(in thousands)	
8.8% Debentures, due annually $2,500,000 in 1986 to 1995, and $5,000,000 in 1996	**$ 27,461**	$ 28,575
8½% Senior Notes, due annually $3,000,000 1986 through 1998	**39,000**	42,000
Obligations under long-term lease agreements	**13,950**	14,500
13% Notes payable, due annually in varying installments from 1986 to 1992	**8,196**	9,055
Pollution control and industrial development loan agreements	**18,350**	17,350
Other	**3,163**	7,043
	110,120	118,523
Less—current maturities	**5,838**	5,625
	$104,282	$112,898

At December 29, 1985, 8.8% debentures with a face value of $2,539,000 were held in the treasury by the Company. $2,500,000 of these are expected to be used in meeting the 1986 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 7-1/8%. Principal repayments are to be made of $100,000 in 1987, $2,000,000 in 1988, $300,000 in each of 1989 and 1990, $3,500,000 in 1993 and varying amounts from 1998 to 2009.

The combined aggregate maturities and sinking fund requirements for long-term debt for the five years following 1985, after giving effect to debentures held by the Company and available for sinking fund requirements, are as follows:

1986	1987	1988	1989	1990
$5,838,000	$7,288,000	$8,713,000	$7,126,000	$7,731,000

The Company maintains formal and informal, domestic and foreign, intermediate and short-term bank credit facilities of $138,000,000 against which $15,762,000 was borrowed at December 29, 1985. Domestic borrowings bear interest at the prime rate or, at the Company's option, at a rate based on either the certificate of deposit rate or the interbank offering rate. Foreign borrowings bear interest at varying rates which are generally the overseas equivalent of the prime rate. Terms of the domestic credit facilities include commitment fees on the unused portion of the facility.

Under the most restrictive terms of the Company's various loan agreements, the Company can pay cash dividends and/or repurchase the Company's capital stock in amounts up to $101,000,000 as of December 29, 1985.

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 59,531 shares or $2,715,000 in 1985, 57,026 shares or $2,520,000 in 1984 and 56,063 shares or $1,944,000 in 1983.

On February 7, 1984 the Company purchased 500,000 shares of Interlake common stock for $43.25 per share. These shares were held in the treasury at December 29, 1985 and December 30, 1984.

Shares outstanding averaged 5,560,388 in 1985, 5,472,810 in 1984, and 5,785,740 in 1983.

NOTE 5—RETIREMENT BENEFITS

Pension expense of continuing operations totaled $6,805,000, $5,046,000, and $7,484,000 in 1985, 1984 and 1983, respectively. The increase in pension expense in 1985 was due to the absence of favorable pension expense adjustments recorded in 1984 and the acquisition of Chem-tronics, Inc. The decrease in pension expense in 1984 was largely due to pension expense adjustments made possible by improved pension fund performance. 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 29, 1985	December 30, 1984
	(in thousands)	
Actuarial present value of accumulated plan benefits		
Vested	**$173,200**	$169,400
Non-vested	**3,400**	3,200
	176,600	172,600
Effect of projected pay increases	**35,900**	32,500
	$212,500	$205,100
Net assets available for plan benefits	**$349,300**	$288,300

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 8% for 1985 and 1984.

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 was $6,083,000, $6,328,000 and $4,209,000 in 1985, 1984 and 1983, respectively.

NOTE 6—STOCK INCENTIVE PLANS

Under the Company's stock incentive plans, the Board of Directors may grant to officers and key employees options to purchase shares at prices not less than market price at the date of grant. The period during which options may be exercised cannot exceed ten years from the date of grant. The Board may authorize the surrender of the right to exercise an option or portion thereof in exchange for a stock appreciation right, which is the right to receive an amount of stock and/or cash equal to the excess of the market price at the time of exercise over the aggregate option price of such shares. The Board may also grant stock awards, which consist of shares of common stock awarded to certain officers and key employees. 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. A total of 540,000 shares may be issued under the Company's stock incentive plans, of which not more than 150,000 may be issued as stock awards. The stock incentive plans permit participants to make payment for exercised options by delivering to the Company stock already owned by such participants. The 1984 Stock Incentive Program also allows grantees of stock awards to elect to have up to 50% of each installment applied to the payment of withholding taxes. A summary of activity under stock incentive plans follows:

	1985		1984		1983	
	Shares	**Average Price**	Shares	Average Price	Shares	Average Price
Stock Options:						
Outstanding—beginning of year	**312,075**	**$38.56**	348,156	$35.20	364,012	$29.95
Granted	**68,550**	**50.44**	64,850	45.19	167,150	39.94
Exercised	**(43,717)**	**31.33**	(66,814)	30.00	(54,941)	26.24
Surrendered for exercised S.A.R.'s	**(42,936)**	**38.68**	(25,656)	32.16	(69,450)	26.53
Canceled or expired	**(6,250)**	**43.50**	(8,461)	38.02	(58,615)	34.78
Outstanding—end of year	**287,722**	**42.37**	312,075	38.56	348,156	35.20
Exercisable—end of year	**146,222**	**38.58**	146,756	34.93	147,965	32.43
Available for grant	**262,025**		327,050		117,757	
Stock awards granted	**37,780**	**50.91**	23,500	44.30	19,350	33.54
Treasury shares issued for S.A.R.'s exercised	**5,149**		4,348		9,671	
Shares delivered by employees	**15,318**		18,510		14,377	

The number of shares available for grant as stock options at December 29, 1985 assumes that the number of shares issued as stock awards will be the maximum permitted by the plans.

NOTE 7—UNUSUAL ITEMS

In 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 1985, final adjustments to this provision added $1.0 million to pretax income plus a tax benefit of $.4 million.)

In 1983 a favorable pretax adjustment of $8,400,000 was made to the 1980 shutdown/disposal provision. Primarily, this adjustment reflected current determinations of employee post-retirement costs and realization of proceeds from the sale of facilities. This adjustment was equivalent to $.94 per share after applicable income taxes.

NOTE 8—ACQUISITIONS

On July 1, 1985, the Company acquired majority ownership of Conco-Tellus, Inc., a manufacturer of automated guided vehicle systems and other material handling equipment and systems. The Company is accounting for this acquisition using the purchase method. The operations of Conco-Tellus are not significant in relation to the consolidated operating results of the Company.

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 $17,284,000 and $57,687,000, respectively, less liabilities assumed of $22,971,000). The Company is accounting for this acquisition using the purchase method. The excess of the purchase price over the fair value of net assets acquired, $16,873,000, 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 assuming the acquisition of Chem-tronics had occurred at the beginning of 1984. 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
	(in thousands except per share data)
Net sales of continuing operations	$877,733
Income from continuing operations	34,096
Net Income	34,096
Per share of common stock	
Income from continuing operations	$ 6.23
Net Income	6.23

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 and $1,178,000 in 1984 and 1983, respectively, has been allocated on the basis of assets employed in operations.

	For The Year	
	1984	1983
	(in thousands)	
Net sales	$93,343	$71,883
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	$ 283	$(1,566)
(Loss) on disposal of discontinued operations, after applicable income tax provision of $795,000	(283)	—
Total income (loss) from discontinued operations	$ —	$(1,566)

NOTE 10—INCOME TAXES

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

	1985	1984	1983
		(in thousands)	
Current:			
U. S. Federal	**$ 6,603**	$ 6,527	$11,354
State	**2,868**	2,618	2,342
Foreign	**11,111**	10,173	5,899
Total	**20,582**	19,318	19,595
Deferred:			
U. S. Federal	**(1,011)**	13,129	(4,325)
State	**—**	—	—
Foreign	**119**	(654)	(994)
Total	**(892)**	12,475	(5,319)
Tax Provision	**$19,690**	$31,793	$14,276

The U. S. Federal income tax provisions on income from continuing operations were reduced by investment tax credits, net of recapture, of $2,204,000 in 1985, $1,560,000 in 1984 and $1,600,000 in 1983.

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:

	1985	1984	1983
		(in thousands)	
Excess of tax over book depreciation	**$ 1,074**	$ 7,496	$(11,960)
Restructure of European operations	**1,223**	5,034	(6,176)
Retirement benefit costs	**(826)**	428	(34)
Miscellaneous employee benefits	**(228)**	(1,121)	(718)
Equity in earnings of affiliated companies	**89**	536	3,036
Benefit on plant closings	**638**	(1,079)	5,575
Inventories	**(2,825)**	151	746
Sale of interest in joint venture	**—**	—	5,173
All other net	**(37)**	1,030	(961)
	$ (892)	$12,475	$ (5,319)

The effective income tax rates for continuing operations for 1985, 1984 and 1983 are reconciled to the federal statutory tax rate in the following table:

	1985	1984	1983
Statutory federal income tax rate	**46.0%**	46.0%	46.0%
Increase (reduction) in taxes resulting from:			
Investment tax credit	**(4.4)**	(2.2)	(3.9)
Taxes on foreign income before stock relief	**(2.9)**	(.1)	3.4
Restructure of European operations	**(1.8)**	—	(3.3)
Adjustment of available tax reserves	**(1.6)**	(1.1)	(1.0)
Excess percentage over cost depletion	**(1.2)**	(.5)	(2.5)
Capital gains	**(.7)**	(.5)	(2.6)
Tax effect of U. K. stock relief	**—**	(.3)	(2.4)
Earnings attributable to affiliated companies	**1.8**	.3	(2.3)
State income taxes	**3.1**	2.0	3.1
All other net	**.9**	.8	.5
	39.2%	44.4%	35.0%

Income from foreign operations included in consolidated income from continuing operations before taxes on income was $27,271,000, $20,841,000, and $8,878,000 for 1985, 1984 and 1983, respectively.

As of December 29, 1985, 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.

No provision has been made for U. S. income taxes on approximately $108,082,000 of undistributed earnings of foreign subsidiaries which management intends to reinvest in those operations for an indefinite period of time. The Company anticipates that no material tax cost would be incurred on these earnings, if distributed.

NOTE 11—INVESTMENTS IN IRON ORE INTERESTS

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

	1985	1984	1983
		(in thousands)	
Working capital	**$ 61,188**	$ 62,066	$ 45,907
Property, plant and equipment, net of depreciation and depletion	**132,109**	150,852	169,588
Other assets	**12,493**	13,242	73,047
Long-term liabilities	**52,629**	64,599	80,580
Stockholders' equity	**153,161**	161,562	207,962
Revenues	**278,418**	258,539	269,538
Net income	**30,789**	41,053	41,942
Interlake's equity in net income, after consolidating eliminations	**2,823**	1,683	9,336

NOTE 12—BUSINESS SEGMENT INFORMATION

The Company operates in four segments each of which is composed of products which have a similar strategic emphasis. The four business segments are:

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

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

Primary Metals—included are iron and steel products.

Supplementary Products—included are coal chemicals, miscellaneous metal powders, blade repairs, office/interior products and associated products purchased for resale. The die casting business and the gain on its sale in November 1985 are included in this segment.

The accompanying tables present financial information by business segment for the years 1985, 1984 and 1983.

Sales between business segments are primarily priced at market value for primary metal products and at distributor prices for handling and packaging 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	Handling and Packaging	Primary Metals	Supplementary Products
		(in millions)		
1985				
Liquidation of LIFO inventory quantities	**$ (.1)**	**$ 1.2**	**$ .9**	**$ —**
Gain on sale of die casting business	**—**	**—**	**—**	**1.9**
Adjustment of provision for restructure of European operations	**—**	**1.0**	**—**	**—**
	$ (.1)	**$ 2.2**	**$ .9**	**$ 1.9**
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

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, redeemable preferred stock, investments in real property and, in 1983, 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 handling and packaging 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.

INFORMATION ABOUT THE COMPANY'S BUSINESS SEGMENTS

	Year	Net Sales Customers (a)	Net Sales Affiliates	Operating Profit (Loss) (b)	Assets at Year-End (c)	Depreciation and Amortization	Capital Expend-itures
				(in millions)			
Special Materials	**1985**	**$213.6**	**$ —**	**$23.7**	**$208.7**	**$10.2**	**$21.2**
	1984	186.2	—	34.3	199.6	6.2	5.1
	1983	149.5	—	24.2	124.0	5.7	5.0
Handling and Packaging	**1985**	**434.0**	**.9**	**29.3**	**214.7**	**6.3**	**8.2**
	1984	406.4	1.2	24.3	169.9	6.4	5.9
	1983	363.2	1.0	(1.8)	197.1	6.7	7.6
Primary Metals	**1985**	**130.9**	**68.1**	**(8.8)**	**144.3**	**8.9**	**6.3**
	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
Supplementary Products	**1985**	**71.7**	**.2**	**8.1**	**22.9**	**2.1**	**.7**
	1984	74.0	.1	6.1	38.3	1.9	1.4
	1983	68.1	.1	4.7	39.1	1.7	1.2
Corporate Items/ Eliminations	**1985**	**—**	**(69.2)**	**(2.0)**	**138.8**	**.4**	**5.0**
	1984	—	(67.9)	(.3)	111.0	—	.1
	1983	—	(47.6)	(4.1)	143.2	(.1)	.1
Consolidated	**1985**	**850.2**	**—**	**50.3**	**729.4**	**27.9**	**41.4**
	1984	845.1	—	71.5	682.6	23.1	22.8
	1983	763.5	—	40.7	673.9	22.6	15.8

		1985	1984	1983
(a) includes sales in—Special Materials:	Powdered Metals	**$ 88.3**	$102.6	$ 82.2
—Handling and Packaging:	Material Handling	**269.3**	238.7	211.9
	Packaging	**164.7**	167.7	151.3
—Primary Metals:	Steel	**106.8**	142.9	123.1
(b) includes equity in earnings of unconsolidated affiliates of:	Primary Metals	**(3.1)**	3.8	4.0
(c) includes investment in unconsolidated affiliates of:	Primary Metals	**22.5**	25.9	23.7

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	**1985**	**$632.7**	**$ 3.5**	**$ 30.0**	**$452.1**
	1984	628.7	3.3	54.7	452.6
	1983	553.0	2.8	47.0	385.1
Western Europe	**1985**	**135.1**	**.9**	**10.6**	**85.2**
	1984	138.0	.5	6.9	66.9
	1983	143.1	.2	(10.5)	95.9
All Other Foreign	**1985**	**82.4**	**1.2**	**11.6**	**53.3**
	1984	78.4	1.1	10.1	52.1
	1983	67.4	.2	8.4	49.7
Corporate Items/Eliminations	**1985**	**—**	**(5.6)**	**(1.9)**	**138.8**
	1984	—	(4.9)	(.2)	111.0
	1983	—	(3.2)	(4.2)	143.2
Consolidated	**1985**	**850.2**	**—**	**50.3**	**729.4**
	1984	845.1	—	71.5	682.6
	1983	763.5	—	40.7	673.9

NOTE 13—COMMITMENTS AND CONTINGENCIES

The Company's interests in two iron ore mining joint ventures require 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 purchase 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 14—QUARTERLY RESULTS (UNAUDITED)

Quarterly results of operations for 1985 and 1984 were as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in millions except per share data)			
1985				
Net sales	**$212.4**	**$209.0**	**$204.0**	**$224.8**
Gross profit	**43.7**	**43.3**	**40.5**	**42.2**
Net income—amount	**7.0**	**7.7**	**5.6**	**7.9**
—per share	**1.27**	**1.39**	**1.00**	**1.41**
1984				
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

Net income in the fourth quarter of 1985 included a gain of $.7 million arising from the disposal of the die casting business. In addition, a favorable adjustment to a provision for restructuring certain materials handling operations in Europe increased pretax income in the fourth quarter of 1985 by $1.0 million plus $.4 million tax benefit.

Liquidations of LIFO inventory quantities in the first quarter of 1985 increased net income by $.8 million.

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.

NOTE 15—SUBSEQUENT EVENT (UNAUDITED)

On February 27, 1986, the Board of Directors of Interlake approved in principle a proposed reorganization. This reorganization will establish Acme Steel Company (Acme) as a wholly-owned subsidiary of The Interlake Corporation, which will be the newly created holding company of the subsidiaries and operations presently owned by Interlake. The businesses of Acme will consist of the iron, steel and domestic U.S. steel strapping businesses now being conducted by Interlake. The remainder of Interlake's businesses will be held in other subsidiaries of The Interlake Corporation. The reorganization is subject to certain conditions including approval by the shareholders of Interlake.

The Interlake Board of Directors on February 27, 1986 also indicated Interlake's intent to distribute, tax-free, the shares of Acme to the shareholders of Interlake. The proposed distribution is subject to certain conditions and final approval by the Board of The Interlake Corporation following the reorganization. The management of Interlake anticipates that no charges to income would result if the proposed distribution is completed.

The following pro forma condensed financial information presents the results of operations of Acme and The Interlake Corporation for 1985 (assuming the reorganization had occurred at the beginning of 1985) and the financial position of these entities at December 29, 1985.

Statement of Income
For the Year Ended December 29, 1985

	As Reported	Pro Forma (Unaudited) Acme Steel Company	Pro Forma (Unaudited) The Interlake Corporation
		(in thousands)	
Net Sales of Continuing Operations	$850,173	$239,861	$635,327
Cost of Products Sold	680,516	225,810	479,721
Gross Profit	169,657	14,051	155,606
Selling and Administrative Expense	122,194	18,082	104,112
Net Interest Expense	4,509	—	4,509
Non-operating (Income) Expense	(7,329)	(1,184)	(6,145)
Income (Loss) from Continuing Operations Before Taxes on Income	50,283	(2,847)	53,130
Income Tax Provision (Benefit)	19,690	(1,451)	21,141
Minority Interest in Net Income of Subsidiaries	2,412	—	2,412
Net Income (Loss) for the Year	$28,181	$(1,396)	$29,577

Balance Sheet
December 29, 1985

	As Reported	Pro Forma (Unaudited) Acme Steel Company	Pro Forma (Unaudited) The Interlake Corporation
		(in thousands)	
Current Assets	$371,105	$ 58,837	$315,031
Property, Plant and Equipment	253,286	88,806	164,480
Other Assets	105,006	23,562	81,444
Total Assets	$729,397	$171,205	$560,955
Current Liabilities	$191,267	$ 46,745	$146,849
Long-Term Obligations	186,377	13,986	172,391
Shareholders' Equity	351,753	110,474	241,715
Total Liabilities and Shareholders' Equity	$729,397	$171,205	$560,955

The pro forma financial information includes intercompany transactions and balances which were eliminated from the consolidated financial statements of Interlake as reported.

The pro forma financial information does not anticipate changes including prospective benefits or costs which may result from the proposed actions.

SELECTED FINANCIAL DATA

	1985	1984	1983	1982	1981
	(dollars in thousands except per share data)				
For the Year					
Net sales of continuing operations	**$850,173**	$845,087	$763,549	$712,406	$921,187
Income from continuing operations before unusual items and taxes on income	**$ 50,283**	$ 71,548	$ 42,840	$ 9,533	$ 70,307
Unusual items	—	—	(2,100)	1,300	—
Income from continuing operations before taxes on income	**50,283**	71,548	40,740	10,833	70,307
Provision for income taxes	**19,690**	31,793	14,276	2,046	26,899
	30,593	39,755	26,464	8,787	43,408
Minority interest in net income of subsidiaries	**2,412**	3,204	2,074	1,210	1,589
Income from continuing operations	**28,181**	36,551	24,390	7,577	41,819
Income (loss) from discontinued operations	—	—	(1,566)	(1,825)	4,758
Net income	**$ 28,181**	$ 36,551	$ 22,824	$ 5,752	$ 46,577
Earnings per common share					
Income from continuing operations	**$5.07**	$6.68	$4.22	$1.21	$6.82
Net income	**5.07**	6.68	3.94	.92	7.59
Cash dividends per common share	**2.60**	2.60	2.60	2.60	2.40
At Year End					
Working capital					
—amount	**$179,838**	$164,336	$202,860	$175,891	$199,803
—current ratio	**1.9 to 1**	2.0 to 1	2.2 to 1	2.1 to 1	2.2 to 1
Total assets	**$729,397**	$682,574	$673,930	$655,792	$710,217
Long-term debt, less current maturities	**104,282**	112,898	115,994	122,338	126,618
Common shareholders' equity					
—amount	**351,753**	323,264	327,401	323,251	358,748
—per common share	**62.84**	59.13	56.12	56.63	58.06

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

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 29, 1985

	(in thousands)
Net income as reported	$ 28,181
Current cost adjustments:	
—cost of goods sold	(2,004)
—depreciation and amortization expense	(13,715)
Net income at current cost	$ 12,462
Gain from decline in purchasing power on net amounts owed	$ 3,472
Increase in general price level of inventories and property, plant and equipment held during the year	$ 26,016
Change in current cost,* (increase) decrease	5,824
Change in the general price level more (less) than change in current cost	$ 31,840
Aggregate foreign currency translation adjustment as reported	$ 9,167
—in current cost	$ 12,326

*At December 29, 1985 current cost of inventory was $212.8 million and current cost of property, plant and equipment, net of accumulated depreciation was $385.4 million.

The current cost adjustments to reported income reflect the effect of price differences caused by:

- reduction of LIFO inventories charged to cost of products sold at substantially lower LIFO values than current cost to replace comparable inventories.
- higher depreciation expense that would arise if existing plant and equipment were replaced at higher current costs.

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

	1985	1984	1983	1982	1981
	(dollars in thousands except per share data)				
Net sales of continuing operations					
—as reported	**$850,173**	$845,087	$763,549	$712,406	$ 921,187
—in constant dollars	**850,173**	875,030	824,474	793,722	1,089,632
Income (loss) from continuing operations					
—as reported	**28,181**	36,551	24,390	7,577	41,819
—in current cost	**12,462**	18,791	5,021	(28,740)	25,241
Income (loss) per common share from continuing operations					
—as reported	**5.07**	6.68	4.22	1.21	6.82
—in current cost	**2.24**	3.43	0.86	(4.59)	4.12
Cash dividends per common share					
—as declared	**2.60**	2.60	2.60	2.60	2.40
—in constant dollars	**2.60**	2.69	2.81	2.90	2.84
Market price per common share at year-end.					
—as reported	**51.88**	44.50	44.25	31.25	33.88
—in constant dollars	**51.03**	45.71	46.96	34.30	38.78
Net assets at year-end					
—as reported	**351,753**	323,264	327,401	323,251	358,748
—in current cost	**566,660**	582,278	649,271	683,362	774,144
Aggregate foreign currency translation adjustments					
—as reported	**9,167**	(12,483)	(7,521)	(11,969)	(15,575)
—in current cost	**12,326**	(17,252)	(11,180)	(17,146)	(24,071)
Gain from decline in purchasing power on net amounts owed	**3,472**	2,985	3,855	5,728	12,937
Change in the general price level more (less) than change in current cost	**31,840**	11,468	13,819	13,284	12,543
Average consumer price index (1967 = 100.0)	**322.2**	310.9	298.4	289.2	272.4

In 1985 and 1982, liquidation of LIFO inventory quantities required an adjustment to current cost of goods sold of $2.0 million and $13.9 million, respectively, in 1985 average dollars.

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 29, 1985 were approximately 142 million net tons of iron ore and 14 million net tons of metallurgical coal. In 1985 the price per ton for this iron ore and coal was $29.11 and $37.44, respectively. Prices for these commodities have been falling in recent years.

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 29, 1985 the number of record holders of the Company's common stock was approximately 15,000.

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

	1985			1984		
	Price		**Per Share Cash Dividends**	Price		Per Share Cash Dividends
	High	**Low**	**Paid**	High	Low	Paid
Calendar Quarter Ended						
March 31	**\$53⅞**	**\$43½**	**\$.65**	\$50	\$41¾	\$.65
June 30	**51½**	**49½**	**.65**	51⅛	46½	.65
September 30	**50¾**	**44½**	**.65**	47⅝	44	.65
December 31	**53¼**	**46½**	**.65**	48	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 3 of Notes to Consolidated Financial Statements.

Messrs. Hopkins, Hansen, Berg and Benson

Messrs. Loeser, Mitchell, Langenberg and MacDonald

Messrs. Williams, Putze, Wright and Schulze

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]

Edward A. Loeser,
Senior Vice President—
Operations, Rockwell
International Corporation
(manufacturer of products
for automotive, electronic,
aerospace and general
industries businesses) [1985]

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 the
communications
industry) [1984]

Louis Putze,
Consultant, Director
and Trustee [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]

Edward J. Williams,
Consultant and
Director [1964]

Morris H. Wright,
Retired Investment
Banker [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.

Messrs. Langenberg and Hopkins

Messrs. Johnson and MacLeod

Messrs. Downs and Henderson

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

Aubrey M. Burer
President,
Chem-tronics, Inc.

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

Gordon R. Walsh
Group Vice President,
Aerospace

Alfred G. Ward
President,
Acme Packaging Division

Ian A. White
President,
Hoeganaes Corporation

Messrs. Polanek, Reum and Anderson

Interlake, Inc.
Commerce Plaza
2015 Spring Road
Oak Brook, Illinois 60521
(312) 986-6600

Interlake