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THE INTERLAKE CORPORATION
1989 ANNUAL REPORT

90s

This is our mission as we enter the '90s.

- For **Shareholders:** Maximum value.
- For **Customers:** Exceptional products and services.
- For **Employees:** A challenging, productive and fulfilling work environment.
- For our **Communities:** A good neighbor.

SHAREHOLDER INFORMATION

Annual Meeting
Shareholders are invited to attend the Corporation's Annual Meeting at 10:00 A.M. local time on Thursday, April 26, 1990. The location will be The Opryland Hotel, 2800 Opryland Drive, Nashville, Tennessee. Proxy materials will be mailed in the latter part of March.

Common Stock Listing and Price Information
Interlake's common stock is listed on the New York and Midwest Stock Exchanges. Its ticker symbol is "IK" and it is listed as "Intlake" in the New York Stock Exchange Composite Transactions, which appear in the business pages of larger daily newspapers.

Form 10-K Available
A copy of The Interlake Corporation Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available to shareholders upon request to the Corporate Secretary, The Interlake Corporation, 701 Harger Road, Oak Brook, Illinois 60521-1488.

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HIGHLIGHTS

In 1989, Interlake . . .

☐ Restructured its operations to intensify management's focus on company strengths and on cash returns.

☐ Borrowed $535 million to finance restructuring.

☐ Realigned its capital structure, including payment on September 27 of a special $45 per share cash dividend.

☐ Generated $25.3 million of cash flow from operations (after interest and taxes) in the fourth quarter . . . $24.4 million higher than in the same 1988 period.

☐ Initiated a plan to divest non-strategic products and operations.

☐ Acquired Power Industries, the United Kingdom's leading provider of plastic strapping systems for newspapers and magazines – a key strategic growth move. Power also has growing North American operations.

☐ Elected W. Robert Reum, a seven-year Interlake veteran, president and chief operating officer.

☐ Named Richard I. Polanek, a twenty-seven year Interlake veteran and vice president – finance, as chief financial officer.

☐ Completed major capital spending projects (more than $155 million in past five years) for facilities and capacity we will need in the next few years.

STRATEGIC REVIEW

As you know from prior reports, our primary objective always has been to build shareholder value. In 1989, we took a significant step to further that objective.

Actions taken since 1983 had contributed to an average annual total return of 27% through 1987. However, in the last two years—years of major capital investment, increased dividends, greater research and development and product diversification, profit gains and stock buy-back programs—the investment community had not rewarded Interlake with stock price appreciation that reflected this growth and strength.

By mid-1989, our apparent undervalued position was evidenced by potential takeover activity in the marketplace. Interlake's management and Board of Directors decided to restructure its businesses, realign its capital structure, and remain an independent company. In the parlance of Wall Street, what we accomplished was a "partial" recapitalization, which allowed realization of share value now and provided for future share price growth without endangering our businesses. Our goal was to bring shareholders and employees maximum benefits, both near and long term. The immediate result was a significant increase in shareholder value.

Frederick C. Langenberg

RESTRUCTURING

The restructuring plan was based on four key elements:

1) A refinancing of the corporation to capture immediate value for today's shareholders and to establish the foundation for future shareholder value. A $45 per share special cash dividend was distributed to shareholders on September 27, 1989. This dividend and other requirements were financed with bank credit and long-term debt totaling $535 million. With the payment of this special dividend, regular common stock cash dividends will not be paid for the foreseeable future. Management's strategy will be focused on those actions that will contribute to share price appreciation. We will manage to maximize value.

2) A 1,100,000 common share ($16.1 million) Employee Stock Ownership Plan (ESOP) for most domestic employees. The ESOP will increase the percentage of Interlake's shares owned by employees. A greater stake in the company's future will more closely align the interests of employees and shareholders. Managers' compensation will have increased emphasis on potential equity ownership.

3) A new operating strategy that will intensify management's focus on the strengths of our businesses. Following this strategy, we expect to be able to generate very healthy cash flows from our operating units, worldwide. These cash flows will be dedicated to repaying outstanding debt and to reinvesting in operating businesses to be sure we keep our technological and marketing edge. Free cash flows will be supplemented by constant monitoring of working capital requirements (which yielded $15 million in cash flow in the fourth quarter of 1989, alone) and reduced, but selective, capital spending, following 1988-89's record investment in additional capacity for new and existing products.

4) A management focused on cash returns and divestiture of non-strategic or under-performing products and operations. As part of this highly cash conscious strategy, we have reorganized administrative functions at corporate headquarters including a 30% staff reduction. Administrative and sales functions at the major business units have been restructured with significant cost benefits worldwide. These actions

were completed in the fourth quarter and will be fully reflected in 1990's results. In addition, we identified proposed divestitures of designated assets with combined 1989 net book value of $35.9 million and sales revenue of $94.9 million.

We are accelerating our timetable for revamping and divesting the operations targeted by our plan. The speed and efficiency with which we prune our corporate tree will have a significant bearing on financial results for the years ahead.

Shareholders should be aware that, because of the company's heavy debt load and consequent increased interest costs, bottom line earnings will not be as good as they have been recently. Therefore, in order to assess Interlake's underlying strength, I would suggest that shareholders look beyond accounting earnings to two important measures of Interlake's performance – the generation of cash flow, and operating earnings before interest and taxes. Those are precisely the two measurements that management will be paying most attention to as it builds a new and stronger Interlake.

MANAGEMENT PROMOTIONS

Among the most significant actions of 1989 was the election in August of Bob Reum as president and chief operating officer. Bob joined Interlake in 1982 as vice president – finance and chief financial officer. In 1987 he was elected to the board of directors and in 1988 promoted to executive vice president in charge of Interlake's worldwide handling/packaging business segment. Ever since he arrived at the company, Bob has been an important partner of mine. He has played a key role in reshaping the business and financial structures of the company, both in 1986 and in 1989.

In September, Dick Polanek was named chief financial officer. Dick, a 27-year veteran with Interlake, has served as controller of the corporation and was promoted to vice president – finance in 1988. He was an important participant in crafting and executing our restructuring.

BOARD OF DIRECTORS CHANGE

Louis Putze retired during 1989 as an Interlake director following 27 years of loyal and dedicated service. Throughout his years as a director, our company gained immeasurably from his broad business experience and his perspective. We will miss him.

LOOKING FORWARD

To reach our goals and to help our businesses reach their goals, our job at corporate headquarters is to

- determine overall business and financial strategy;
- allocate capital among our businesses;
- attract and retain the best possible operating managers;
- and provide the controls and encouragement necessary for success.

Today, as the result of strategies and action taken during the recent past, we have a strong company. We enjoy leading market shares for most of our core products. More than $155 million in capital spending during the past five years has put in place modern, low-cost manufacturing facilities, added capacity and unique capabilities that will enable us to maintain and build our market shares. We will continue to emphasize research and development and selective capital investment in new technological advances.

We are fortunate to have resourceful, energetic, forward-looking managers who are the stewards of your assets. I work hard to keep up with them. And that's a good sign for shareholders. All of us look forward to an exciting and rewarding future for your company.

The '90s will present The Interlake Corporation with unparalleled opportunity and challenge. In this last decade of the 20th Century, we will give shape and direction to the new Interlake that will carry it into the next century.

The front cover of this Annual Report highlights our mission statement. We mean what it says.

Frederick C. Langenberg

Frederick C. Langenberg,
Chairman and Chief Executive Officer
March 5, 1990

OPERATING REVIEW

Structurally, Interlake consists of a small corporate staff and six decentralized core business units.*

The tasks of our operations are to

- stay close to customers;
- produce better products more efficiently than competitors;
- negotiate fair prices for value delivered;
- and utilize our investors' capital as productively as we can by producing strong cash flows.

Each business unit has well defined strategic and operating plans. Interlake's future will depend on how well our six business units perform against these individual plans.

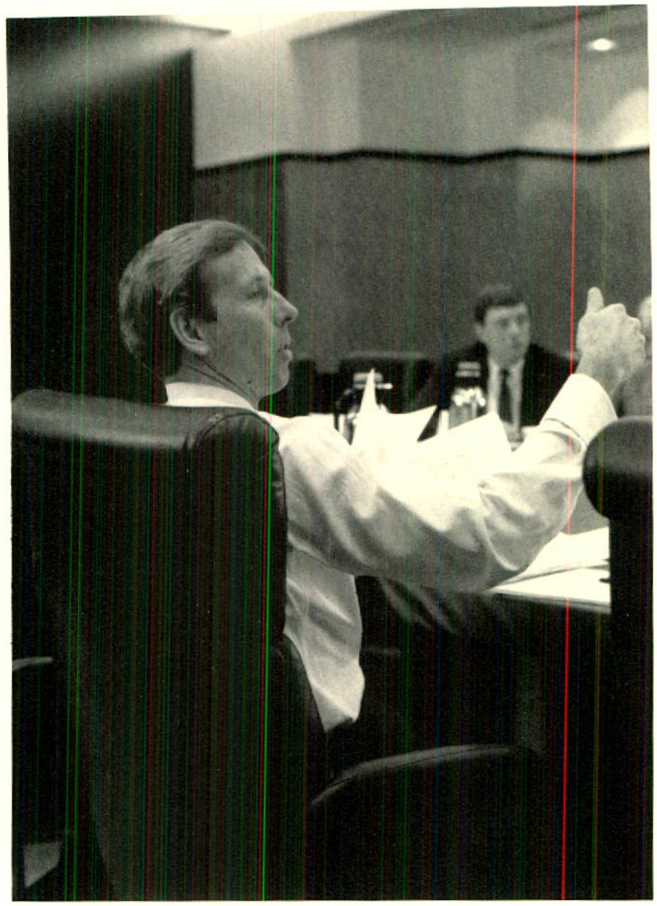
HOEGANAES CORPORATION

Hoeganaes is the market and technology leader in iron and alloy powders, used primarily to manufacture precision parts for automobiles, trucks, farm and garden equipment and appliances. Customers for Hoeganaes powder are producers of powdered metal (P/M) parts which typically require little or no finish machining and result in significant manufacturing savings when produced in large volumes.

Although Hoeganaes' operating profits were off 14 percent versus 1988, 1989 was still its third best year ever. The decline of profits was directly related to the fall-off in automobile and light truck sales, particularly during the second half of 1989. Although sales of domestically produced autos were down by about 4 percent in 1989, Hoeganaes' metal powder sales were down only 2 percent.

Hoeganaes' management anticipated this decline in the automobile industry, and our 1989 results, although lower, were essentially on plan. During periods of weaker automobile sales, Hoeganaes is able to utilize a flexible manufacturing strategy at its New Jersey and Tennessee plants, thus eliminating certain costs.

*(*For an overview of the company, please turn to page 8.* "Interlake At A Glance" *shows each operating unit's plant locations, products, uses, customers and relative market positions.*)



W. Robert Reum

Two trends in the automotive industry have special significance for Hoeganaes. The trends helped our business in 1989, and they represent future growth potential for us over the long term.

One: more powdered metal is being used in cars and light trucks each year as design engineers adopt P/M technology for more parts applications. As industry leaders, we actively promote the advantages of P/M to designers and end users. We continue to market powders and powder blends with improved performance and other characteristics. Our new developments, in turn, provide designers with more opportunities to specify metal powders to replace previous materials.

Two: more light trucks are being sold each year. Light trucks with four-wheel drive use approximately 50 percent more powdered metal than cars, primarily because truck power trains require larger and heavier parts to handle increased load and stress requirements.

These trends have attracted keener competition by both Japanese and British companies with new or expanded P/M parts operations in North America. While the response of our competitors clearly indicates an expanding marketplace for powdered metal, it also means that Hoeganaes' capital program and R & D activities become even more critical to future success.

Hoeganaes' capital program is targeted to maintain our proprietary technical advantage: developing – and helping customers develop – new applications for our products. Hoeganaes' strong commitment to research and new product development continues. Management's goal is to remain the North American P/M industry's low-cost producer and number one supplier.

CHEM-TRONICS

Chem-tronics produces engine ducts and other products for jet aircraft. We use our proprietary chemical milling process, and we fabricate titanium and aluminum with great precision to produce Unistructure® components. These components are known throughout the aviation industry for their superior strength-to-weight ratio. Chem-tronics is the technological and quality leader in its field and one of very few companies to win GE's coveted Top Quality Supplier award.

At present, the military jet engine market is declining. However, more commercial aircraft are being ordered, and Chem-tronics will benefit from this trend. Operating profits for 1989 were 26 percent lower than 1988, due primarily to the slowing of military procurement programs. To help offset softness in the military jet engine portion of our business, Chem-tronics has developed and is placing added focus on special products, particularly for space applications, and on its jet engine component repair business.

Chem-tronics restores and repairs jet engine fan blades and other components for more than 80 airlines and other aerospace customers. This is a growing business serving non-military markets primarily. This business had a good year in 1989, and it continues to grow and provide an increasing portion of Chem-tronics' income and cash flow.

Chem-tronics' special products operations use our proprietary Unistructure® techniques and titanium fabricating skills to produce other aerospace components for military, commercial and space exploration applications. Military and commercial aircraft plus space vehicles which will fly in the next decade will incorporate components that use new and advanced engineered materials. As we reported a year ago, Chem-tronics is perfecting skills and facilities to manufacture a new generation of heat resistant, high-strength materials like titanium aluminides and metal matrix composites.

We now have in place new manufacturing technologies important to future aerospace requirements, including superplastic forming and diffusion bonding equipment. Our superplastic forming equipment produces uniquely shaped parts at much lower cost by stretching metals under controlled temperature and pressure. We use diffusion bonding technology to form high integrity bonds between metallic materials. We believe the potential is substantial in these areas, and we investigated several opportunities in these fields in 1989.

ARWOOD CORPORATION

Arwood is a leading producer of precision investment castings for commercial and military jet aircraft engines as well as other components for aerospace plus other markets. Interlake is negotiating the sale of Arwood, and we will comment further when these negotiations are completed. (See Note 13 of Notes to Consolidated Financial Statements.)

MATERIAL HANDLING

This business unit makes and markets handling and storage components and systems in the U.S. and Australia. The material handling business had a strong year in 1989, with operating profits 15 percent ahead of 1988.

Results were aided by the company's new, state-of-the-art manufacturing plant in Sumter, South Carolina, which came on stream in 1988. In 1989, Sumter's production rates, order backlog and margins all improved. Pontiac, Illinois, and Lodi, California, plant employees also turned in another outstanding performance during 1989. Historically, this unit's strength has been in the storage business, and concentration on our strengths in 1989 enabled us to extend our position as the industry's leader in storage products.

Grant L. Johnson, senior vice president and general counsel

We accelerated our efforts to further improve our conveyor business in 1989. We developed several new products which will enable us to become successful in small conveyor systems. However, the results for 1989 weren't as good overall. Margins on several large integrated conveyor systems projects did not meet expectations. In 1990, we will complete current major projects for customers, but will not accept additional orders for large integrated systems. However, orders for small conveyor systems have been encouraging. We expect 1990 to provide an important foundation for growth of the conveyor business.

Our material handling business in Australia turned in good results again, particularly in storage products where we are the market leader. As we reported a year ago, we acquired a retail display equipment manufacturer which enabled us to move into a major new product where our goal is to gain market leadership. Overall results were hurt somewhat by difficulties in assimilating this new business, but we believe the major difficulties and costs are behind us.

DEXION GROUP PLC

Interlake's European storage and handling business, Dexion plc, has manufacturing plants in England, West Germany and Belgium. Dexion also exports to other countries. As market leaders, we are well-positioned to compete effectively as the European Community strives to achieve a "single market" after 1992.

We continue to maintain our position as the leading supplier of rack and shelving in the United Kingdom and on the Continent. We are accomplishing this by more aggressive marketing, further quality improvements and expanding our extensive network of in-stock storage product distribution centers. Our storage centers are effective because we provide better market coverage, better service and faster delivery than our competitors. Dexion centers accounted for a meaningful portion of revenues in 1989, and further growth is expected.

Dexion's overall 1989 operating profits were up 20 percent from 1988, with solid profit increases from portions of the U.K. rack business and from West Germany and Belgium.

INTERLAKE PACKAGING

Interlake Packaging manufactures strapping and strapping systems in the U.S., Canada and England, as well as wire stitching equipment in the U.S.

The 1989 headline story for Interlake Packaging was our acquisition of Power Industries in June. Packaging's 1989 results include Power for six months only. Power's business is strong, both in the U.K. and the U.S., where its potential is particularly striking. The addition of this company and its dynamic management

(From left) Robert A. Pedersen, president, Interlake Packaging Corporation, Stephen Hinchliff, chairman, Dexion Group plc and Stephen Gregory, president, Material Handling Division

has sparked a reorganization of the overall business and a new strategic focus for our plastic strapping business.

Power's strength is technology and systems that use plastic strapping and special equipment to bundle newspapers and magazines. By far the U.K. leader, Power's U.S. sales have grown rapidly since its products were introduced in the United States in 1985. In addition to selling strapping machines and related equipment, Power also markets plastic strapping.

Interlake Packaging also manufactures strapping and strapping systems for other markets in the U.S., Canada and England. Outside the U.S., Interlake Packaging markets steel strapping and systems as well as plastic. Our Canadian strapping company is a supplier of steel and plastic strapping and systems. Our operation in England also has a leading share of these markets.

Another Interlake Packaging leader is our wire stitching business, for many years a reliable performer in box closure, plus many applications in the graphics arts industry. Our products are incorporated as a standard component in printing and office equipment manufactured by more than a dozen graphic arts industry firms in the U.S., Europe and Japan. We expect this business to continue to grow and maintain its enviable reputation.

Interlake Packaging's 1989 results were down 23 percent from 1988. The major negative impact came from Canadian and U.K. operations. Extremely heavy price discounting by competitors in Canada resulted in lower margins for our steel strapping. In addition, Canada's housing and lumber markets were both weaker during 1989. Several problems surfaced in our U.K. packaging company during 1989. We have acted to solve these problems and return this operation to a trend of improving profitability.

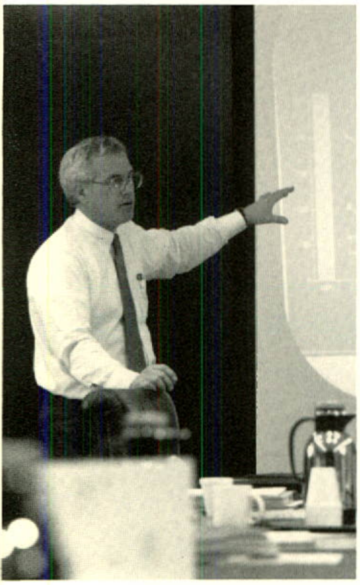
OUTLOOK FOR OPERATIONS

1990 operating results are expected to show improvement over 1989, assuming no major economic downturn in countries where we operate and assuming successful completion of our program to divest nonstrategic assets. Positive factors should include full-year benefits from Power Industries, further improvements at our new South Carolina rack plant, record backlogs at Chem-tronics, increased conveyor and rack orders, plus strong operations in continental Europe.

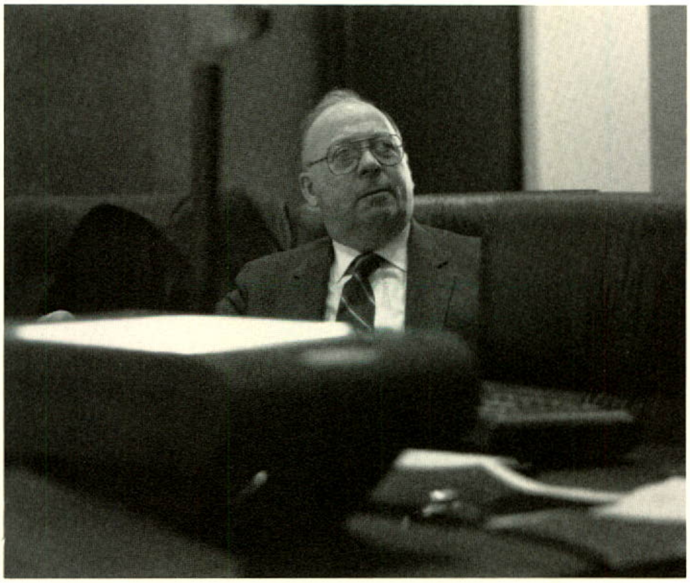
W. Robert Reum

W. Robert Reum,
President and Chief Operating Officer

Chem-tronics president, James H. Legler



Hoeganaes president, Ian A. White



Gordon R. Walsh, group vice president

Interlake at a Glance

Interlake is an international manufacturer with six operating units.

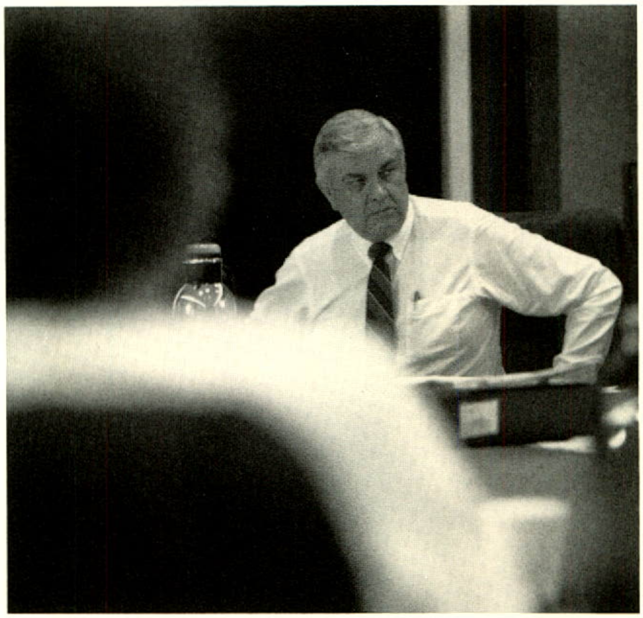
NAME	PRODUCTS/USES	CUSTOMERS	MARKET POSITION
HOEGANAES CORPORATION Gallatin, TN Milton (Watsontown), PA Riverton, NJ	**Iron and alloy powder** • Automotive & truck engine & powertrain parts • Lawn & garden equipment parts • Appliance parts • Construction machinery parts	Metal powder parts suppliers Auto companies Heavy machinery producers	World leader
CHEM-TRONICS, INC. El Cajon, CA	**Lightweight structures** • Ducts & rings for jet engines	Leading jet engine manufacturers	Largest in this market segment
	Aviation repair • High bypass jet engine fan blades	80 airlines, U.S. Air Force	Significant share in this market segment
	Special fabrications • Advanced military engines & aircraft, missiles & space applications	Prime aerospace defense contractors	Unique in its array of fabrication technologies
ARWOOD CORPORATION Cleveland, OH Franklin, NH Groton, CT Santa Fe Springs, CA Tilton, NH	**Precision investment castings** • Commercial & military jet engines • Airframes • Avionics containers • Missile, ordnance parts	Leading jet engine & airframe manufacturers Prime aerospace defense contractors	A leader in the small castings segment
INTERLAKE MATERIAL HANDLING Blacktown, Australia Huntington Beach, CA Lodi, CA Pontiac, IL Shepherdsville, KY Sumter, SC Wacol, Australia	**Storage rack, systems** • Distribution facilities; flexible manufacturing facilities, receiving, shipping, in-process storage	Businesses in all size ranges in North America, Australia	Largest in U.S. and Australia
	Conveyors and conveyor systems		Growing supplier in a fragmented field
DEXION GROUP plc Hemel Hempstead, U.K. Kilnhurst, U.K. Laubach, Federal Republic of Germany Nivelles, Belgium	**Storage rack, systems** • Distribution facilities; flexible manufacturing facilities; receiving, shipping, in-process storage **Shelving, office partitioning**	Businesses in all size ranges in the U.K., European mainland, Africa, the Mideast, Asia	Largest in the U.K., Belgium; a leader in Germany
INTERLAKE PACKAGING CORPORATION Fountain Inn, SC Kilnhurst, U.K. Maidenhead, U.K. Racine, WI Scarborough, Canada Strood, U.K. Westlake, OH	**Plastic strapping machines & plastic strapping**	Manufacturers Distributors Agriculture Textiles Lumber and forest products Businesses which ship products in cartons	A leader in North America and U.K.
	Metallic strapping machines & metallic strapping • Carton strapping; securing unit loads, i.e. pallets, textile products, lumber		Largest supplier in Canada; significant share in U.K.
	Wire stitchers • Boxboard sealing • Book, magazine binding	Businesses which ship products in cartons Graphic arts	Leader in the U.S.

FINANCIAL REVIEW

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

In 1989 Interlake implemented a restructuring program (see Note 2 of Notes to Consolidated Financial Statements) which included:

- recapitalization of the Corporation on September 27 consisting of:
  - establishment of $480.0 floating rate bank loan facilities, with $319.1 outstanding at December 31, 1989;
  - issuance of $200.0 in subordinated increasing rate notes, which are expected to be refinanced with senior subordinated debentures in 1990, depending on market conditions;
  - payment of a special cash dividend of $45 per share totaling $458.8;
  - repayment of certain existing debt amounting to $71.9;
  - incurrence of related fees and expenses of $26.6.
- sale of 1,100,000 of the Corporation's common shares to an Employee Stock Ownership Plan (ESOP) on November 2 and commencement of a new stock purchase program related to the ESOP.
- designation of certain non-core operating assets, having a net book value of $35.9 at December 31, 1989, to be sold before the end of 1990.



Richard I. Polanek

The Recapitalization

On August 10, 1989, the Board of Directors declared a special cash dividend of $45 per share to shareholders of record as of August 21, 1989. This dividend was paid on September 27, 1989. The Corporation believes that $40.45 per share of this dividend should be considered taxable as a dividend. The remaining amount of $4.55 per share will reduce the basis of a shareholder's shares, and, to the extent of the shareholder's basis, will not be taxable under U.S. federal income tax regulations. The Corporation does not expect to make any dividend payments in the foreseeable future.

To finance the recapitalization, the Corporation borrowed $535.0 in bank loans ($335.0) and subordinated increasing rate notes ($200.0) on September 27, 1989. This recapitalization changed the Corporation's financial position to one that is highly leveraged. As a result of the increased debt, the Corporation has substantially greater interest expense and principal repayment obligations (see Note 10 of Notes to Consolidated Financial Statements).

In addition to scheduled debt repayments, the Corporation's bank credit agreements provide for mandatory prepayments from asset dispositions, issuances of stock, incurrence of indebtedness, and generation of annual excess cash flows. The bank agreements also contain covenants which require the Corporation to meet certain financial tests and limit its ability to pay dividends, incur debt, dispose of assets, acquire new businesses and make capital expenditures above predetermined levels. The Corporation's ability to comply with its financial covenants will depend on its future operating performance, which in turn will be subject to prevailing economic conditions and to financial, business, and other factors, including certain factors which may be beyond its control.

At the end of 1989 the Corporation had unused credit facilities under its bank loan agreements of $25.0 in revolving credit, $30.0 in deferred term loans (available for term loan repayments), and $80.0 in delayed draw term loans (available for certain environmental matters with up to $15.0 for general corporate purposes).

The $200.0 of subordinated increasing rate notes outstanding at December 31, 1989 may be refinanced by the issuance of $200.0 of senior subordinated debentures during 1990, depending on market conditions.

Cash Flow

Cash flow from operating activities was $74.3, $86.2, and $61.3 in 1989, 1988, and 1987, respectively. The 1989 cash flow benefited from a renewed, company-wide emphasis on working capital control which furnished $36.9, with $15.0 coming in the fourth quarter. At the end of 1989, operating working capital (exclusive of current debt liabilities) equalled 17% of annualized fourth quarter sales, compared to 21% at the end of 1988. In 1988, the receipt of excess pension fund assets provided a significant cash inflow of $55.0, net of related tax payments.

Cash flow for investment activities was $45.8, $50.1, and $22.6 in 1989, 1988, and 1987, respectively. In these years, the Corporation invested $106.1 in capital projects. This included record investment of $49.1 in 1988 when plant expansion expenditures peaked at $27.5. In 1989 capital investments totaled $31.4, including $10.8 for expansion projects. The expansion and upgrading of the Corporation's metal powders, aerospace component and storage rack facilities over the last three years have provided the Corporation with capacity to support anticipated future growth. Acquisition expenditures of $21.8 in 1989 related primarily to the June acquisition of 80% of the Power companies, suppliers of plastic packaging systems (machines and strapping) to the newspaper and magazine industries in Europe and North America. Expenditures of $8.5 in 1988 included a metal powders business specializing in high alloy applications, two software businesses and an Australian retail and display business. Divestitures of $6.0 in 1988 reflect the disposal of the airfoils business in the second quarter of that year.

Cash flow for financing activities (exclusive of the recapitalization) was $36.2, $41.3, and $65.6 in 1989, 1988, and 1987, respectively. The major elements of financing flows were:

- stock purchases, under a prior stock purchase program, of 1,701,882 shares of common stock for $69.2, including $2.2 in 1989, $38.9 in 1988, and $28.1 in 1987;
- debt repayments of $50.7;
- dividend payments of $42.6, including $.75 per share in 1989, $1.45 per share in 1988, and $1.35 per share in 1987.

The Corporation does not anticipate that the 1989 restructuring program will restrict its future cash generating abilities. The expected cash requirements for 1990 include $31.5 for scheduled repayments of long-term debt, $15.0 for capital expenditures, and interest expense averaging $5.6 per month. The Corporation expects that its operating cash flow, along with the net proceeds from the sale of the designated non-strategic assets, will be sufficient to meet its needs in 1990 and future years, barring a severe economic downturn.

The ESOP

On November 2, 1989, the Employee Stock Ownership Plan borrowed $16.1, guaranteed by Interlake, and used the proceeds to purchase 1,100,000 shares of common stock from Interlake at $14.625 per share. Subsequently, Interlake undertook a related stock purchase program intended to purchase the lesser of 1,100,000 shares or the number of shares which can be purchased with the $16.1 proceeds received by Interlake. Through December 31, 1989, Interlake purchased 468,139 shares of common stock for $6.8 under this program.

Asset Dispositions

The non-strategic assets designated for disposal in 1990 represent businesses which had sales of $94.9 and losses of $5.2 in 1989, and a net book value of $35.9 at the end of 1989. The divestitures of these businesses are not expected to have an adverse effect on the Corporation's operations. Net proceeds of the dispositions will be applied to payment of principal installments of the Corporation's bank credit agreement which mature in 1990 and 1991. (Also see Note 13 of Notes to Consolidated Financial Statements.)

Results of Operations

1989's sales of $912.9 were up 2% from 1988's record of $892.2, which represented an 8% advance over 1987's $823.1.

Operating income in 1989 included expenses of $21.3 arising directly from the restructuring program and losses of $5.2 from non-strategic businesses that have been discontinued or designated for divestiture which have been classified as unusual items of expense. Excluding these unusual items, operating income for 1989 would have been $67.2. On a comparable basis, operating income would have been $78.8 in 1988 and $74.2 in 1987 (excluding unusual items and exceptional charges). The 1989 earnings decline was attributable to lower sales and production volumes in the Engineered Materials segment, while the 1988 increase was mainly due to improved sales and earnings in the Handling/Packaging Systems segment.

Restructuring program costs, significantly greater interest costs, and related adverse income tax effects and lower operating income resulted in a 1989 net income of $1.0, or $.09 per share. Net income was $39.6, or $3.75 per share, in 1988 and $54.4, or $4.69 per share, in 1987 (including the benefit of $17.0 or $1.47 per share from unusual items and exceptional charges).

Sales and Operating Profit by Business Segment

(The following business segment commentary isolates the businesses designated for disposal in 1990 and excludes 1987 unusual items and exceptional charges of $28.8 and $14.9 against Engineered Materials and Handling/Packaging Systems, respectively. See Note 5 of Notes to Consolidated Financial Statements for further information on business segments.)

ENGINEERED MATERIALS

Engineered Materials includes special materials (metal powders for forming intricate shapes), and aerospace components (investment castings, and precision machined structures and complex fabrications).

Sales of the Engineered Materials segment declined 5% in 1989.

- Metal powders' sales were 2% lower than 1988's record levels due to softness in U.S. automotive production in the second half of the year. Tonnage volume declines of 7% were partially offset by higher selling prices, which recovered higher raw materials costs.
- Aerospace components' sales were down by 7% from 1988. Most of this decline was attributable to reduced investment castings' sales.

Operating profit for the Engineered Materials segment was down 30% in 1989. Customer emphasis on new products of a highly complex nature resulted in higher development and operating costs and increased rework and rejection problems which limited output and deliveries, especially in investment castings. Lower volumes for powdered metals also had an unfavorable earnings effect. In addition, the termination of a defense program had an adverse impact on fabricated aerospace components.

Segment sales in 1988 were essentially unchanged from 1987 as higher metal powders' sales offset lower aerospace components' sales. Metal powders' tonnage volume advanced 11% from 1987, while aerospace components declined as a result of the completion of the B1-B bomber program in 1987 and the divestiture of the airfoils business in the second quarter of 1988. Operating profit of the Engineered Materials segment increased 1% in 1988 as the benefits from powdered metals' volume gains were largely offset by higher aerospace component manufacturing costs.

The Engineered Materials segment ended 1989 with an order backlog of $216 up from $200 at the end of 1988. The advance reflects increases in aerospace component orders, which extend over a three year period.

HANDLING/PACKAGING SYSTEMS

Handling/Packaging Systems includes hardware and supplies used to convey, store, retrieve, sort, and package.

Sales of Handling/Packaging Systems advanced 10% in 1989, despite a 4% adverse effect of foreign exchange rate changes. Handling sales increased on a worldwide basis, reflecting increased volume of storage rack (particularly from the new Sumter, South Carolina, storage rack plant) and domestic conveyor products. Packaging sales also increased worldwide as a result of the midyear acquisition of the Power companies which added 3% to segment sales.

- Sales in the United States were up 3%. Storage rack and conveyors established new records for the second consecutive year, with gains of 12% and 6%, respectively. The Power acquisition contributed a gain of 3%. However, the volume of integrated systems and Automated Guided Vehicles (AGV) declined 47% and 70%, respectively, due to de-emphasis of these businesses.
- Foreign sales (adjusted to comparable exchange rates) increased 21%. European businesses advanced 16% and the Power acquisition added 4% to foreign sales. In Canada, competitive discounting and reduced customer demand in the steel strapping market had an adverse effect on packaging sales (down 9%). Australian handling recorded a 23% sales gain in 1989.

The segment's operating profit increased 5%, despite a 5% unfavorable effect of foreign exchange rates. Most of the improvement came as a result of a more profitable product mix and increased production efficiencies in domestic storage rack operations. The acquisition of the Power companies increased segment earnings by 6%. However, competitive discounts in the Canadian steel strapping market adversely affected the results of Packaging operations, and U.K. packaging and domestic conveyor results were generally lower.

In 1988 Handling/Packaging Systems' sales increased 10% over 1987, with roughly a third of the gain from favorable foreign currency movements. U.S. storage rack and conveyors reached record levels, increasing 16% and 36%, respectively, over 1987. However, there were weaknesses in the North American market for AGV systems. The segment's operating profit in 1988 increased 14%. Favorable foreign currency exchange rate movements provided approximately 40% of this advance. Benefits from LIFO inventory liquidations were reduced in 1988 to $2.3 million from $3.7 million in 1987. Improved earnings at the two established domestic rack plants were partially offset by start-up costs at the new plant in Sumter, South Carolina.

Handling/Packaging Systems' backlog at the end of 1989 decreased 25% to $97 versus the previous year end level of $130, at comparable exchange rates, due largely to the de-emphasis of the integrated systems and AGV businesses.

Businesses Designated for Disposal

As part of the restructuring program, certain businesses were designated for disposal (see Note 5 of Notes to Consolidated Financial Statements). In 1989 the sales of these businesses fell 11% due to declines at certain European operations. Losses on these businesses of $5.2 were 3% lower than in 1988. Canadian handling recorded a profit following substantial losses in strike-burdened 1988. However, this benefit was largely offset by lower results and severance provisions at the designated European businesses.

The sales of these businesses advanced 33% in 1988, due to major projects undertaken by the European businesses. Canadian handling experienced a 24% decrease in sales due directly to a seven week, first quarter strike and a resulting loss of market share. The 1988 loss of $5.4 for these businesses compared to a profit of $1.6 in 1987, with the decline essentially attributable to the Canadian handling strike which caused a substantial loss in 1988.

Foreign Operations

The Corporation does business in a number of foreign countries through its Handling/Packaging Systems segment. The results of these operations are initially measured in local currencies and then translated into U.S. dollars at applicable exchange rates. Consequently, the results of these operations are sensitive to changes in applicable foreign exchange rates. The results of the principal foreign operations are initially measured in British pounds or Canadian dollars. None of these operations is located in a country which has experienced high inflation in recent years. Fluctuations in foreign currency exchange rates in 1989 versus 1988 caused decreases in sales and operating income of 2%. Similar changes in 1988 versus 1987 caused increases of 3% in sales and operating income (excluding 1987's unusual items and exceptional charges). Significant changes in applicable foreign exchange rates could have a material effect on the Company's results of operations. (For additional information about the Company's operations by geographic area, see Note 5 of Notes to Consolidated Financial Statements.)

Unusual Items of 1989

The Corporation provided for certain unusual expenses in conjunction with the establishment of its Restructuring Program (see Note 2 of Notes to Consolidated Financial Statements). Consultant, advisor, and other professional fees amounted to $16.6. Related costs associated with stock incentive plans and reorganization of personnel totaled $4.7, and the businesses designated for disposal in 1990 lost $5.2.

Interest Expense

Net interest expense increased to $22.2 in 1989, as compared to $2.3 and $3.0 in 1988 and 1987, respectively. The increase was due to the additional restructuring program borrowings, which will result in substantially higher interest expenses in coming years.

Preferred Stock Dividend

Dividend income of $1.4, $1.4 and $1.7 reported in 1989, 1988 and 1987, respectively, was received on the redeemable preferred stock acquired as part of the proceeds from the sale of the Globe Metallurgical Division in 1984. The declining income was the result of past redemptions. The fourth quarter 1989 redemption of $6.0 will result in lower dividends in future years.

Provision for Income Taxes

Income taxes were provided at effective rates of 74.4%, 39.4%, and 54.7% in 1989, 1988, and 1987, respectively. The effective rate in 1989 was high because the book tax provision was adversely affected by the restructuring program. The costs of this program caused a U.S. domestic loss for book purposes. However, this loss did not produce a comparable income tax benefit due to application of alternative minimum tax rules. In addition, the repatriation of foreign earnings, as part of the restructuring program, resulted in U.S. and foreign income tax expenses which could not be fully offset by foreign tax credits because of increased U.S. domestic interest expenses.

1987's high effective tax rate was essentially related to the unusual items recorded in that year:

- taxes on income recorded under FAS 87/FAS 88 for excess pension fund assets to be reverted included a 10% Federal excise tax.
- non-deductible write-offs of $5.3 were included in restructuring adjustments.

Prospective Developments

FAS 96 requires the provision of deferred and future taxes on timing differences, between reported book and tax return calculations, at the statutory rates which would apply during the period when taxes become payable. The required adoption of this standard has been delayed two years to 1992 because of the implementation problems associated with its requirements. The Corporation expects that the lower tax rates provided by the Tax Reform Act of 1986 will reduce its liability for future taxes, but does not, at present, anticipate a significant impact from this future accounting change.

The Financial Accounting Standards Board has issued an exposure draft of a proposed standard pertaining to post-employment benefits other than pensions. The Corporation has been accruing for liabilities of this type since 1979. While there is no way to predict the exact nature of the future standard, the Corporation should be able to adopt that standard with far less impact than most other companies which offer comparable benefit programs.

Due to general economic conditions and uncertainties in major markets (including the automotive and defense markets), the Corporation believes that operating results for 1990 may be somewhat less favorable than previously disclosed, although more favorable than 1989 operating results.

Environmental Matters

The Corporation is from time to time involved in proceedings and inquiries relating to environmental matters (see Note 12 of Notes to Consolidated Financial Statments). The Corporation does not expect such items, presently known to the Corporation, to have a material effect on future results.

Effects of Inflation

The impact of inflation on the Corporation in recent years has not been material, and it is not expected to have a significant effect in the foreseeable future.

Richard I. Polanek,
Vice President—Finance and
Chief Financial Officer

The Interlake Corporation
Report of Management

The consolidated financial statements of The Interlake Corporation, presented on pages 14 through 30 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 finanical 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.

Richard I. Polanek,
Vice President—Finance and
Chief Financial Officer

Frederick C. Langenberg,
Chairman of the Board and
Chief Executive Officer

Report of Independent Accountants
Price Waterhouse

To the Board of Directors and Shareholders of The Interlake Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of The Interlake Corporation and its subsidiaries at December 31, 1989 and December 25, 1988, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1989, in conformity with generally accepted accounting principles. These financial statements are the responsibility of The Interlake Corporation's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse

Chicago, Illinois
February 22, 1990

THE INTERLAKE CORPORATION

CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 1989, December 25, 1988 and December 27, 1987

	1989 (53 weeks)	1988 (52 weeks)	1987 (52 weeks)
	(in thousands except per share data)		
Net Sales	**$912,894**	$892,218	$823,058
Cost of products sold	**696,644**	673,172	624,313
Selling and administrative expense	**149,064**	145,613	135,419
Unusual items of (income) and expense	**26,470**	–	(66,775)
Operating Income	**40,716**	73,433	130,101
Interest expense	**26,199**	10,778	8,767
Interest income	**(4,000)**	(8,499)	(5,765)
Dividend income	**(1,350)**	(1,425)	(1,650)
Nonoperating (income) expense	**555**	(23)	888
Income Before Taxes on Income and Minority Interest	**19,312**	72,602	127,861
Provision for Income Taxes	**14,364**	28,569	69,980
	4,948	44,033	57,881
Minority Interest in Net Income of Subsidiaries	**3,983**	4,479	3,509
Net Income	**$ 965**	$ 39,554	$ 54,372
Net Income Per Share of Common Stock	**$ .09**	$ 3.75	$ 4.69
Average number of shares outstanding	**10,291**	10,549	11,588

(See notes to consolidated financial statements)

THE INTERLAKE CORPORATION

CONSOLIDATED BALANCE SHEET

December 31, 1989 and December 25, 1988

	1989	1988
	(in thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	**$ 16,181**	$ 50,454
Receivables, less allowances of $4,532,000 in 1989 and $3,999,000 in 1988	**131,401**	179,862
Inventories	**103,267**	126,044
Net assets held for sale	**37,367**	—
Other current assets	**19,845**	26,577
Total current assets	**308,061**	382,937
Goodwill and Other Assets:		
Goodwill, less accumulated amortization of $9,120,000 in 1989 and $7,413,000 in 1988	**39,732**	25,229
Other assets	**52,908**	51,316
	92,640	76,545
Property, Plant and Equipment, net	**193,808**	200,991
Total Assets	**$594,509**	$660,473
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	**$ 66,887**	$ 81,927
Accrued liabilities	**53,940**	53,223
Accrued salaries and wages	**15,315**	17,777
Income taxes payable	**23,752**	23,946
Debt due within one year	**31,491**	52,894
Total current liabilities	**191,385**	229,767
Long-Term Debt	**523,702**	76,651
Post-Retirement Benefits	**29,663**	28,998
Future Income Taxes	**37,227**	41,277
Commitments and Contingencies	**—**	—
Minority Interest	**15,503**	13,830
Shareholders' Equity:		
Common stock, par value $1 per share, authorized 100,000,000 shares, issued 11,740,695 in 1989 and 1988	**11,741**	96,769
Cost of common stock held in treasury (900,186 shares in 1989 and 1,614,479 shares in 1988)	**(24,472)**	(65,825)
Retained earnings (Accumulated deficit)	**(160,512)**	249,466
Unearned compensation	**(19,582)**	(2,264)
Accumulated foreign currency translation adjustments	**(10,146)**	(8,196)
	(202,971)	269,950
Total Liabilities and Shareholders' Equity	**$594,509**	$660,473

(See notes to consolidated financial statements)

THE INTERLAKE CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 31, 1989, December 25, 1988 and December 27, 1987

	1989 (53 weeks)	1988 (52 weeks) (in thousands)	1987 (52 weeks)
Cash flows from (for) operating activities:			
Net income	**$ 965**	$39,554	$ 54,372
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**30,300**	26,100	24,590
Unusual items	**4,434**	–	(23,811)
Other operating adjustments	**1,736**	6,239	12,725
(Increase) decrease working capital:			
Accounts receivable	**33,755**	(21,475)	(11,995)
Inventories	**11,009**	(15,588)	(4,519)
Prepaid pension asset	**–**	98,000	–
Other current assets	**5,480**	(6,338)	(99)
Accounts payable	**(2,138)**	163	16,525
Other accrued liabilities	**(8,410)**	(10,528)	10,319
Income taxes payable	**(2,817)**	(29,878)	(16,816)
Total Working Capital Change	**36,879**	14,356	(6,585)
Net cash provided by operating activities	**74,314**	86,249	61,291
Cash flows from (for) investing activities:			
Capital expenditures	**(31,425)**	(49,091)	(25,615)
Proceeds from disposal of PP&E	**1,220**	1,043	805
Acquisitions	**(21,812)**	(8,534)	(785)
Divestitures	**–**	5,990	–
Discontinued operations	**–**	–	(4,980)
Partial redemptions of preferred stock received from 1984 business disposition	**6,000**	4,000	–
Other investment flows	**173**	(3,475)	7,993
Net cash used by investing activities	**(45,844)**	(50,067)	(22,582)
Cash flows before financing activities	**28,470**	36,182	38,709
Cash flows from (for) financing activities:			
Proceeds from issuance of short-term debt	**37,779**	39,176	6,546
Retirements of short-term debt	**(85,025)**	(21,108)	(22,792)
Proceeds from issuance of long-term debt	**560,339**	–	–
Retirements of long-term debt	**(105,894)**	(6,155)	(6,425)
Dividends	**(470,677)**	(15,275)	(15,475)
Sale of treasury stock	**16,088**	–	–
Purchase of treasury stock	**(9,004)**	(38,916)	(28,100)
Other financing flows	**(8,151)**	934	623
Net cash provided (used) by financing activities	**(64,545)**	(41,344)	(65,623)
Effect of exchange rate changes	**1,802**	(935)	10,603
Increase(Decrease) in cash and cash equivalents	**$ (34,273)**	$ (6,097)	$ (16,311)

(See notes to consolidated financial statements)

THE INTERLAKE CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 1989, December 25, 1988 and December 27, 1987

	Common Stock and Paid-in Capital		Common Stock Held in Treasury		Retained Earnings (Deficit)	Unearned Compen-sation	Foreign Currency Translation	Total
	Shares	Amount	Shares	Amount				
					(in thousands)			
Balance December 28, 1986	11,512	$ 88,202	–	$ –	$ 191,338	$ –	$ (29,178)	$ 250,362
Net Income					54,372			54,372
Dividends Declared					(15,603)			(15,603)
Stock Incentive Plans	229	8,917	(2)	(95)		(3,581)		5,241
Treasury Stock			(734)	(28,100)				(28,100)
Translation Gain							20,020	20,020
Adjustment of Acme Steel Company Spin-Off					(4,980)			(4,980)
Balance December 27, 1987	11,741	97,119	(736)	(28,195)	225,127	(3,581)	(9,158)	281,312
Net Income					39,554			39,554
Dividends Declared					(15,215)			(15,215)
Stock Incentive Plans		(350)	36	1,286		1,317		2,253
Treasury Stock			(914)	(38,916)				(38,916)
Translation Gain							962	962
Balance December 25, 1988	**11,741**	**96,769**	**(1,614)**	**(65,825)**	**249,466**	**(2,264)**	**(8,196)**	**269,950**
Net Income					**965**			**965**
Dividends Declared		**(85,279)**			**(381,589)**			**(466,868)**
Stock Incentive Plans		**251**	**126**	**4,880**	**(114)**	**(1,432)**		**3,585**
Treasury Stock			**(522)**	**(9,004)**				**(9,004)**
ESOP Transactions			**1,110**	**45,477**	**(29,240)**	**(15,886)**		**351**
Translation Loss							**(1,950)**	**(1,950)**
Balance December 31, 1989	**11,741**	**$11,741**	**(900)**	**$(24,472)**	**$(160,512)**	**$(19,582)**	**$(10,146)**	**$(202,971)**

(See notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 1989, December 25, 1988 and December 27, 1987

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.

Cash Equivalents—The Corporation considers all highly liquid financial instruments with maturities of three months or less to be cash equivalents and reports the earnings from these instruments as interest income.

Revenue Recognition—Revenue from sales is generally recognized when product is shipped, except on long-term contracts in the Handling/Packaging Systems segment, where revenue is accounted for principally by the percentage-of-completion method.

Inventories—Inventories are stated at the lower of cost or market value. Cost is generally determined by the last-in, first-out (LIFO) method. Gross inventories valued on the LIFO method represent approximately 68% and 67% of gross inventories at December 31, 1989 and December 25, 1988, respectively. The current cost of these inventories exceeds their valuation determined on a LIFO basis by $33,016,000 at December 31, 1989 and by $38,939,000 at December 25, 1988.

During 1989 and 1988, inventory quantities valued on the LIFO method were reduced, resulting in the liquidation of LIFO inventory quantities carried at lower costs that prevailed in prior years as compared with the costs of production for 1989 and 1988. As a result, income before taxes in 1989 and 1988 was increased by $3,223,000 and $2,385,000, equivalent to $.21 and $.15 per share, respectively, after applicable income taxes.

December 31, 1989 and December 25, 1988 inventory amounts by category were:

	1989	1988
	(in thousands)	
Raw materials	**$ 14,947**	$ 24,157
Semi-finished and finished products	**76,287**	90,413
Supplies	**12,410**	14,080
	103,644	128,650
Less-restructuring adjustments	**(377)**	(2,606)
	$103,267	$126,044

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 nonoperating income.

Expenditures for renewals and betterments which extend the originally estimated useful life of an asset or materially increase its productivity are capitalized. Expenditures for maintenance and repairs and for minor renewals and betterments are charged to expense as incurred.

Goodwill—Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired companies and is amortized on a straight-line method over periods not exceeding thirty years. During 1989, goodwill was increased by $19,398,000 reflecting the Power acquisition. See Note 4.

Foreign Currency Translation—The financial position and results of operations of the Corporation's foreign subsidiaries are measured using local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in the cumulative translation adjustment account in shareholders' equity.

NOTE 2–RESTRUCTURING PROGRAM

During the third quarter of 1989, the Corporation adopted a restructuring program which included (a) recapitalization of the Corporation (Recapitalization), (b) establishment of an employee stock ownership plan (ESOP), and (c) modification of the strategic operating plan.

The Recapitalization occurred on September 27, 1989 when the Corporation borrowed $335,000,000 in senior bank debt and issued $200,000,000 in subordinated increasing rate notes. These proceeds and other internal funds were used to pay a special cash dividend of $45 per share ($458,779,000), repay certain existing debt ($71,930,000), and pay related fees and expenses ($26,583,000, of which $16,582,000 was charged to unusual items and $10,001,000 was deferred as debt issuance cost to be amortized to interest expense over the term of the borrowings).

The ESOP borrowed $16,088,000 on November 2, 1989 through the Corporation's senior bank debt arrangements, which was guaranteed by the Corporation. Proceeds were used to purchase 1,100,000 shares of Interlake common stock from the Corporation. The Corporation subsequently began a related stock purchase program intended to acquire, in the open market, the lesser of 1,100,000 shares or $16,088,000 of common stock.

The strategic operating plan identified certain businesses and Corporate assets that will be disposed of (the Designated Asset Sale Program) and implemented major Corporate cost reductions. The businesses to be divested under the Designated Asset Sale Program include (a) the metal powders' magnetics operation; (b) the Sumter, South Carolina strapping equipment manufacturing plant; (c) the Canadian handling operation; and (d) selected Dexion Group businesses, including handling operations in the United Kingdom, Ireland, and Austria and United Kingdom electronics. During 1989, these businesses had combined sales of $94,879,000 and combined losses of $5,236,000 (which were reported as part of unusual items). At the end of 1989, the assets held for sale of these businesses were $35,937,000 consisting of working capital items of $18,097,000 and long-term assets of $17,840,000. The Corporate cost reduction actions involved provisions for severances and relocations of $2,280,000 which were charged to unusual items during 1989. At the end of 1989, the Corporate aircraft (with a net book value of $1,430,000) was included in assets held for sale. Management believes that the net recorded value of the assets designated for sale approximates realizable value. Unusual items in 1989 also included stock incentive costs of $2,372,000 associated with the significant increase in the Corporation's common stock price related to the restructuring program.

NOTE 3–UNUSUAL ITEMS AND EXCEPTIONAL CHARGES IN 1987

At the beginning of 1987, the Corporation adopted Financial Accounting Standards Nos. 87 and 88. The former specifies how an employer must calculate pension expense or income for an ongoing pension plan and the latter specifies how an employer must calculate gain or loss for the settlement of a pension plan. During the fourth quarter of 1987 certain pension plans were settled and pretax gains of $87,480,000 were recognized according to FAS 88. The pretax pension income recognized for these plans according to FAS 87 during the period prior to settlement was $10,520,000. The benefit of these gains was equivalent to $3.84 per share after applicable income taxes.

In the fourth quarter of 1987, a pretax provision of $31,225,000 was recorded for the estimated costs to restructure certain of the Corporation's operations. These costs included allowances for obsolete and excess assets ($14,065,000), adjustments of goodwill ($5,290,000), and anticipation of related personnel and other costs ($11,870,000). The provision reduced net income by the equivalent of $1.78 per share.

In the fourth quarter of 1987, operating income was reduced by $12,475,000 for exceptional charges resulting from a reevaluation of each business unit of the Corporation. These costs included the write-off of excess assets ($7,312,000) and provisions for other costs ($5,163,000). The charges reduced net income by the equivalent of $.59 per share.

As of the end of 1989, portions of the provisions for restructuring costs and exceptional charges detailed above remained unresolved. The remaining balance of $6,442,000 consisted of anticipated current liabilities ($5,542,000) and allowances for obsolete and excess assets ($900,000) and reflects management's best estimate.

NOTE 4–ACQUISITIONS

On June 7, 1989 the Corporation and certain of its subsidiaries acquired a majority interest in Power Industries, Ltd. of Maidenhead, England and Power Strap, Inc. of Westlake, Ohio, along with its wholly owned subsidiary Power Polystrap of Jacksonville, Florida. The acquisition of these packaging systems and plastic strapping companies was for cash and notes of $17,870,000, plus future consideration based on future performance. The companies had current and long-term assets of $13,168,000 and $3,345,000, respectively, and liabilities and minority interests of $14,061,000 and $490,000, respectively. The Corporation is accounting for this acquisition using the purchase method. The excess of the purchase price over the fair value of net assets acquired, $15,908,000, is being amortized on a straight-line basis over a twenty-year period. The first of three earn-out payments was made in 1989 for $3,490,000 and is being amortized on a straight-line basis over a ten year period.

NOTE 5–BUSINESS SEGMENT INFORMATION

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

Engineered Materials – included are special materials (metal powders for forming intricate shapes), and aerospace components (investment castings, and precision machined structures and complex fabrications).

Handling/Packaging Systems – included are hardware and supplies used to convey, store, retrieve, sort and package.

The accompanying tables present financial information by business segment for the years 1989, 1988 and 1987. 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 either of the two business segments. In 1989 'Corporate items' included expenses of $21,234,000 related to the restructuring program (see Note 2). In 1987 'Corporate items' included pension income of $98,000,000 (see Note 3). Total assets by business segment consist of those assets used directly in the operations of each segment. Corporate assets consist principally of cash, cash equivalents, prepaid pension cost and redeemable preferred stock.

The operating results of specific segments were increased (decreased) by the following significant items:

	Engineered Materials	Handling/ Packaging Systems
	(in millions)	
1989		
Businesses to be divested*	**$ (1.2)**	**$(4.0)**
Liquidation of LIFO inventory quantities	**.3**	**2.9**
1988		
Businesses to be divested*	$ (1.7)	$(3.7)
Liquidation of LIFO inventory quantities	.1	2.3
1987		
Businesses to be divested*	$ (.8)	$ 2.4
Restructuring adjustments**	(22.7)	(8.5)
Exceptional charges**	(6.1)	(6.4)
Liquidation of LIFO inventory quantities	–	3.7

*Businesses to be divested under the Designated Asset Sale Program (see Note 2)

**See Note 3

INFORMATION ABOUT THE CORPORATION'S BUSINESS SEGMENTS

	Year	Net Sales (a)	Operating Profit	Assets at Year-End	Depreciation and Amortization	Capital Expenditures
			(in millions)			
Engineered Materials	**1989**	**$288.7**	**$ 30.4**	**$247.5**	**$15.1**	**$15.3**
	1988	301.8	43.7	253.4	13.9	22.5
	1987	301.5	14.4	233.3	14.2	9.8
Handling/Packaging Systems	**1989**	**624.2**	**32.6**	**319.8**	**14.5**	**15.8**
	1988	590.4	31.3	312.7	11.3	25.9
	1987	521.6	18.2	266.4	9.5	15.7
Corporate Items/ Eliminations	**1989**	**—**	**(43.7)**	**27.2**	**.7**	**.3**
	1988	—	(2.4)	94.4	.9	.7
	1987	—	95.3	194.1	.9	.1
Consolidated	**1989**	**912.9**	**19.3**	**594.5**	**30.3**	**31.4**
	1988	892.2	72.6	660.5	26.1	49.1
	1987	823.1	127.9	693.8	24.6	25.6

(a) includes sales in

		1989	1988	1987
–Engineered Materials:	Special Materials	**$130.5**	$131.9	$109.3
	Aerospace Components	**158.2**	169.9	192.2
–Handling/Packaging Systems:	Handling	**480.9**	446.8	397.1
	Packaging	**143.3**	143.6	124.5

Sales to domestic and foreign government agencies are not material. Transfers between geographic areas, which are all in the Handling/Packaging Systems 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. Total assets consist of those assets used directly in the operations in the geographic areas shown. Export sales to unaffiliated customers included in the United States' sales are not material.

INFORMATION ABOUT THE CORPORATION'S OPERATIONS BY GEOGRAPHIC AREA

	Year	Net Sales Customers	Net Sales Inter-geographic	Operating Profit	Assets at Year-End
			(in millions)		
United States	**1989**	**$500.0**	**$ 3.8**	**$ 39.3**	**$345.6**
	1988	504.5	3.5	50.3	344.6
	1987	499.5	3.0	8.0	307.9
Western Europe	**1989**	**283.8**	**1.0**	**13.8**	**130.7**
	1988	265.6	.7	17.9	152.8
	1987	215.6	.5	14.0	136.4
Canada and Australia	**1989**	**129.1**	**.4**	**9.9**	**91.0**
	1988	122.1	.3	6.8	68.7
	1987	108.0	.9	10.6	55.4
Corporate Items/ Eliminations	**1989**	**—**	**(5.2)**	**(43.7)**	**27.2**
	1988	—	(4.5)	(2.4)	94.4
	1987	—	(4.4)	95.3	194.1
Consolidated	**1989**	**912.9**	**—**	**19.3**	**594.5**
	1988	892.2	—	72.6	660.5
	1987	823.1	—	127.9	693.8

NOTE 6–INCOME TAXES

The provisions for taxes on income from operations consist of:

	1989	1988	1987
		(in thousands)	
Current:			
U.S. Federal	**$ 521**	$52,431	$ 6,980
State	**2,176**	3,295	9,837
Foreign	**10,082**	10,472	15,242
Total	**12,779**	66,198	32,059
Deferred:			
U.S. Federal	**1,254**	(37,451)	37,626
State	**—**	—	—
Foreign	**331**	(178)	295
Total	**1,585**	(37,629)	37,921
Tax Provision	**$14,364**	$28,569	$69,980

Deferred taxes are provided for items which are recognized in different years for financial reporting and income tax purposes, principally depreciation expense. The difference between book and tax recognition of the settlement of certain pension plans had a major effect on deferred taxes in 1988 and 1987.

The effective income tax rates for 1989, 1988, and 1987 are reconciled to the federal statutory tax rate in the following table:

	1989	1988	1987
Statutory federal income tax rate	**34.0%**	34.0%	40.0%
Increase (reduction) in taxes resulting from:			
Taxes on foreign income	**14.2**	3.4	1.4
Alternative minimum tax	**11.0**	—	—
Effect of dividends from foreign subsidiaries	**9.2**	(1.8)	(1.3)
State income taxes	**7.4**	3.0	4.6
Nondeductible acquisition costs	**1.2**	.1	1.9
Excise tax	**—**	.4	7.7
All other	**(2.6)**	.3	.4
	74.4%	39.4%	54.7%

In 1989 the distribution of income sources had an unusual effect on income taxes. Book income was concentrated in foreign jurisdictions with high tax rates (averaging 46.2%) and domestically in states with high tax rates. The domestic book loss did not receive proportionate federal income tax benefits due to application of alternative minimum tax rules. In addition, taxes on dividends from foreign subsidiaries could not be fully offset by foreign tax credits because of increased domestic interest expenses.

Actual cash disbursements for income taxes were $14,882,000, $60,272,000, and $34,012,000, in 1989, 1988 and 1987, respectively.

Income from foreign operations included in consolidated income before taxes was $22,550,000, $22,952,000, and $34,408,000, for 1989, 1988 and 1987, respectively.

As of December 31, 1989, U. S. Federal income tax returns for the years 1982 through 1984 were in the process of examination. All prior years have been examined, and all assessments have been paid, including any applicable interest. The Corporation 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 $14,500,000 of undistributed earnings of foreign subsidiaries. The Corporation has no present intention to distribute those earnings.

NOTE 7—RETIREMENT BENEFITS

The Corporation has various defined benefit and defined contribution pension plans which cover substantially all employees.

The provision for defined benefit pension costs includes current costs, interest costs, actual return on plan assets, amortization of the unrecognized net asset existing at the date of transition and net unrealized gains and losses. Benefits are computed based mainly on years of service and compensation during the latter years of employment. Corporation contributions are determined according to the funding requirements set forth by ERISA.

The following table sets forth the funded status of the ongoing, domestic and foreign defined benefit plans and the amounts included in the year-end balance sheet. The Corporation's plans were generally overfunded. The underfunded plans which existed were not significant.

	1989	1988
Plan assets at fair value	**$131,968,133**	$113,188,506
Actuarial present value of accumulated benefit obligation:		
• Vested benefits	**78,063,892**	66,847,036
• Non-vested benefits	**3,098,345**	3,623,477
	81,162,237	70,470,513
Effect of assumed future compensation increases	**17,894,261**	18,484,106
Projected benefit obligation for service to date	**99,056,498**	88,954,619
Plan assets in excess of projected benefit obligation	**32,911,635**	24,233,887
Items not yet recognized in earnings:		
• Unrecognized net asset at December 28, 1986 (being recognized over 15 years)	**24,747,245**	24,243,143
• Unrecognized net actuarial gain	**6,081,155**	(366,256)
• Unrecognized prior service cost	**(116,419)**	(808,324)
	30,711,981	23,068,563
Prepaid (Accrued) pension liability	**$ 2,199,654**	$ 1,165,324

Net pension income for these plans consists of the following components:	1989	1988	1987
Service cost	**$ 4,193,404**	$ 3,689,413	$ 3,071,677
Interest cost	**7,708,331**	6,902,850	5,287,846
Actual return on plan assets	**(23,463,398)**	(11,479,463)	(2,779,645)
Net amortization and deferred items	**11,709,422**	970,140	(6,002,142)
Net pension cost (income)	**$ 147,759**	$ 82,940	$ (422,265)
Assumptions used in the computations:			
Assumed discount rate	**7-9%**	7-9%	7-9%
Expected long-term rate of return on plan assets	**7-9%**	7-9%	7-9%
Rate of increase in future compensation levels	**5-7%**	5-7%	5-7%

U.S. pension plan assets are primarily invested in short and intermediate term cash investments, corporate bonds and common and preferred stock.

The expense for the Corporation's defined contribution pension plans which was included in income from operations was $2,542,000, $3,140,000 and $2,812,000 in 1989, 1988 and 1987, respectively. Annual contributions to defined contribution plans are equal to the amounts accrued during the year.

The Corporation also has post-retirement health care and death benefit plans covering certain domestic employees. The provision for post-retirement benefit costs includes current costs, amortization of prior service costs over periods not exceeding twenty-five years, and interest on the accrued liability. The provision for such plans included in operating income was $2,399,000, $3,029,000 and $2,575,000 in 1989, 1988 and 1987, respectively. The post-retirement benefits are not funded. The accumulated liability for post-retirement medical and death benefits was $21,549,000 and $20,909,000 in 1989 and 1988, respectively.

NOTE 8–SHAREHOLDERS' EQUITY

On September 27, 1989 a special dividend payment of $45.00 per share totalling $458,779,000, was paid (see Note 2). This distribution was reflected by reducing additional paid-in capital to zero and charging retained earnings. Prior to the special cash dividend, two regular quarterly dividend payments were declared and paid in 1989, totalling $7,589,000. No dividend payments are anticipated in the immediate future.

On April 28, 1988 the shareholders of Interlake approved an increase in the authorized common stock from 40,000,000 shares, par value $1 per share, to 100,000,000 shares, par value $1 per share. There were 11,740,695 shares issued at the end of 1989 and 1988. Interlake's authorized capital stock also includes 2,000,000 shares of serial preferred stock at $1 par value per share, none of which has been issued.

Pursuant to authority extended by the Board of Directors, Interlake purchased 1,701,882 shares of its common stock in 1987, 1988 and in 1989 prior to the Recapitalization at a cost of $69,250,000.

The ESOP was established with an initial contribution of 10,000 shares, followed by the sale of 1,100,000 shares to the ESOP on November 2, 1989. Under a related stock purchase program, Interlake plans to purchase the lesser of 1,100,000 shares or the number of shares purchasable for $16,088,000 in the open market or in privately negotiated transactions. A total of 468,139 shares were subsequently purchased at a cost of $6,771,000 during the latter part of 1989.

On January 26, 1989 the Board of Directors declared a dividend distribution of one right for every share of common stock outstanding on February 6, 1989, in accordance with a new Rights Agreement. These new rights replace rights distributed in 1986 which were redeemed by the payment of five cents per share to shareholders of record on February 6, 1989 ($500,000). The purpose of the new rights is to better protect the Corporation against certain unfair and abusive takeover tactics. In certain circumstances, shareholders, other than the holder of 15% or more of Interlake's stock, have the right to purchase Interlake stock from the Corporation for less than its market price. The new Rights Agreement also provides that, in certain circumstances, Interlake shareholders can purchase, for less than market value, shares of a company which acquires The Interlake Corporation.

Unearned compensation represents estimated future charges to income by reason of the ESOP and stock awards previously granted. Principal and interest payments on the ESOP borrowings are charged against earnings as employee compensation and interest expenses, respectively. Payments are made to the ESOP trustee which pays the principal and interest to the banks and uses the amount of such payments to determine the allocation of Interlake common shares to the employee participants' accounts.

NOTE 9–STOCK INCENTIVE PLANS

In November 1989 the Board of Directors adopted a stock incentive program ("1989 Program"), subject to approval by the Corporation's shareholders. The 1989 Program provides for the issuance of up to 1.6 million shares of common stock for any of the following purposes: awards of common stock to officers and key employees, payment of all or part of bonuses otherwise payable in cash, the exercise of stock options granted to officers and key employees, and awards of a limited number of shares to directors who are not officers or employees.

Pursuant to the 1989 Program, the Board of Directors has granted options to purchase 1,125,000 shares at $14.625 per share, and has determined that one-half the amount of certain bonuses awarded for 1990 be paid in common stock valued on the last trading day of 1990. All options will be cancelled and no shares will be issued as bonuses if the 1989 Program is not approved by Interlake's shareholders at the 1990 Annual Meeting of Shareholders; no options are presently exercisable.

Substantially all of the shares authorized for the granting of benefits under the 1986 Stock Incentive Program have been applied to the granting of benefits provided in such Program and the adjustment of stock options outstanding on the record date for the special dividend payment of $45 per share. A summary of activity under the 1986 Stock Incentive Program and its predecessors follows:

	1989 Shares	1989 Average Price	1988 Shares	1988 Average Price
Stock Options:				
Outstanding-beginning of year	**273,766**	**$37.50**	299,007	$33.93
Adjustment for special dividend	**437,079**	**–**		
Granted	**–**	**–**	102,650	41.69
Exercised	**(78,952)**	**28.49**	(38,655)	26.16
Surrendered for exercised S.A.R.'s	**(21,625)**	**34.18**	(69,611)	33.22
Canceled or expired	**(15,645)**	**37.41**	(19,625)	42.31
Outstanding-end of year	**594,623**	**11.30**	273,766	37.50
Exercisable-end of year	**303,321**	**10.88**	133,799	31.96

At the time of the special dividend, all outstanding stock options held by employees of the Corporation were adjusted to preserve the spread between the market value of such options and the option price before the special dividend.

NOTE 10–LONG-TERM DEBT AND CREDIT ARRANGEMENTS

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

	December 31, 1989	December 25, 1988
	(in thousands)	
Subordinated Increasing Rate Notes	**$200,000**	$ –
Term Loans	**225,000**	–
Revolving Loans	**78,200**	–
ESOP Note	**15,886**	–
8.8% Debentures, due annually $2,500,000 in 1989 to 1995, and $5,000,000 in 1996	**–**	21,139
8.5% Senior Notes, due annually $3,000,000 1989 through 1998	**–**	30,000
Obligations under long-term lease agreements	**12,900**	13,000
Pollution control and industrial development loan agreements	**15,650**	15,650
Other	**7,557**	1,160
	555,193	80,949
Less-current maturities	**31,491**	4,298
	$523,702	$76,651

Interlake's Recapitalization included arrangements to borrow up to $480,000,000 in the form of senior bank debt (the Credit Agreement), the issuance of $200,000,000 of subordinated increasing rate notes, and repayment of certain existing short-term and long-term debt (including the 8.8% Debentures and 8.5% Senior Notes). The Credit Agreement provided facilities for term loans of $230,000,000; revolving loans of up to $150,000,000; an ESOP loan of up to $20,000,000; and delayed draw term loans of up to $80,000,000 (of which $65,000,000 may be used only for certain environmental costs, if such costs are incurred). On September 27, 1989 borrowings were made of $230,000,000 in term loans and $105,000,000 in revolving loans. Subsequently, a scheduled repayment of $5,000,000 was made on the term loans ($30,000,000 is scheduled for repayment in 1990) and the revolving loans were reduced by $26,800,000. On November 2, 1989, the ESOP borrowed $16,088,000 (guaranteed by the Corporation), with a scheduled repayment of $202,000 made before year end ($905,000 is scheduled for repayment in 1990).

Under the terms of the Credit Agreement, the Corporation pays a commitment fee ranging from 1/2 to 3/4 percent on unused credit facilities and has the option to borrow at the prime rate plus 3/4 percent or various London Interbank Offered Rates (LIBOR) plus 1 3/4 percent, adjusted periodically. The initial borrowing rate of 11.25% was reset on December 28, 1989 to rates ranging from 10.5625% to 10.8125%. At the end of 1989, the Corporation had entered into interest rate hedging arrangements limiting interest rates on $175,000,000 of debt to 10.427%.

On September 27, 1989, the Corporation issued $200,000,000 of subordinated increasing rate notes which mature in March 1998 and as of December 15, 1989, bore interest at an annual rate of 12.3125% (to be reset quarterly at the LIBOR rate plus a spread that increases 50 basis points each quarter, with a maximum rate limit of 18%).

The long-term lease obligations relate principally to capitalized pollution control facilities. The interest rates on these obligations vary from 6.125% to 7.875%. Principal repayments are due in varying annual amounts through 2002.

The Corporation has 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 6.00% to 7.125%. Principal repayments are to be made of $3,500,000 in 1993 and various amounts from 1998 to 2009.

The schedule of debt repayment requirements for the five years following 1989 are as follows:

1990	1991	1992	1993	1994
$31,491,000	$59,813,000	$26,980,000	$34,120,000	$37,625,000

Under the Credit Agreement the Corporation is limited in its ability to pay cash dividends and repurchase its common stock. There are no plans to pay dividends in the immediate future. Stock purchases will be limited to those related to the ESOP. In addition to scheduled repayments of debt, the Credit Agreement requires certain mandatory prepayments in connection with asset dispositions, issuances of stock, incurrence of indebtedness and generation of excess cash flows. The Credit Agreement also contains covenants relating to capital expenditures, interest coverage ratios, current ratios, leverage ratios, and net worth. Substantially all of the Corporation's assets are pledged under the Credit Agreement.

At December 31, 1989 foreign units of the Corporation had dollar denominated debt of $99,820,000 under the Credit Agreement and forward exchange contracts on this debt as a hedge against major changes in currency exchange rates. The cost of these hedge contracts is spread over the lives of the contracts and is charged as part of interest expense.

Actual cash disbursements for interest, net of amounts capitalized, were $38,067,000, $10,977,000 and $9,094,000 in 1989, 1988 and 1987, respectively.

At December 31, 1989 the Corporation had unamortized deferred debt issuance costs of $9,316,000 which are being amortized as part of interest expense over the lives of the various debt issues (generally eight years).

At the end of 1989, Interlake had available credit facilities, under the Credit Agreement, of $25,037,000 in revolving loans, $30,000,000 in deferred term loans (with up to $20,000,000 available in any given year to meet scheduled term debt repayments), and $80,000,000 in delayed draw term loans (of which $15,000,000 may be used for general purposes).

NOTE 11–PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment of the Corporation consists of the following:

	December 31, 1989	December 25, 1988
	(in thousands)	
At cost:		
Land	**$ 7,017**	$ 6,769
Buildings	**83,859**	82,490
Equipment	**276,520**	267,392
Construction in progress	**6,209**	28,629
	373,605	385,280
Less-Depreciation and amortization	**(179,297)**	(179,881)
-Restructuring adjustments	**(500)**	(4,408)
	$193,808	$200,991

NOTE 12–COMMITMENTS AND CONTINGENCIES

The Corporation is engaged in certain routine litigation arising in the ordinary course of business. In addition, the Corporation is from time to time involved in administrative and judicial proceedings and administrative inquiries relating to environmental matters. Based upon its evaluation of available information, management does not believe that any such matters are likely, individually or in the aggregate, to have a material adverse effect upon the Corporation's business or consolidated financial condition.

In 1981, the Minnesota Pollution Control Agency (the "MPCA") informed the Corporation of the presence of coal tars and coking by-products, which contain constituents regulated as hazardous substances, in a portion of the St. Louis River adjacent to a location in Duluth, Minnesota, where a predecessor of the Corporation owned and operated a plant for the production of coke and iron (the "Duluth plant"). The Duluth plant was shut down in 1961 and was sold in 1966. The St. Louis River is an estuary of Lake Superior. The MPCA requested information with regard to past waste disposal practices of the Duluth plant as well as other information, and requested the Corporation to conduct any necessary investigations and remediation of the site. After an investigation, the Corporation provided the MPCA with information which the Corporation believed showed that the plant was not a contributor to the presence of the substances requiring investigation and remediation at the site initially identified by the MPCA.

In August 1985, the Corporation received a letter from the U.S. Environmental Protection Agency ("USEPA") identifying the Corporation as a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act of 1980 ("CERCLA") for a site (the "St. Louis River Site"), which includes the site initially identified by the MPCA. The letter also asked the Corporation to proceed voluntarily with a remediation program. The St. Louis River Site includes the Duluth plant as well as other industrial properties owned by other enterprises and never owned by the Corporation or its predecessors and the adjacent portion of the St. Louis River. The St. Louis River Site is on the USEPA's National Priorities List, but of a low priority. In October 1985, the Corporation responded to the USEPA by explaining that there was insufficient evidence to establish it as a responsible party under CERCLA and requested the basis for USEPA listing the St. Louis River Site on the National Priorities List. In January 1986, the USEPA responded to the Corporation's letter by restating its view that the Corporation is a potentially responsible party for the St. Louis River Site, stating that the Corporation will have an opportunity to undertake remedial action after the necessary studies are complete, and explaining the USEPA was authorizing the MPCA to proceed with the necessary studies. Early in 1988, the Corporation was advised that the MPCA was actively investigating the St. Louis River Site with respect to the Duluth plant and understands that an active investigation is continuing.

In September 1989, an environmental consultant engaged by the Administrative Agent under the Credit Agreement on behalf of the banks party to the Credit Agreement and an environmental consultant engaged by the Corporation each conducted an assessment of preliminary information available with respect to the Duluth plant portion of the St. Louis River Site. The Corporation retained consultant evaluated information concerning the environmental condition of the St. Louis River Site with respect to the Duluth plant and the areas potentially requiring remediation to develop an outline of potential remedial action and a preliminary estimate of the costs of such remediation. The consultant engaged by the Corporation estimated that total remediation costs with respect to the Duluth plant portion of the St. Louis River Site would be approximately $20 million, which would be incurred over a five year period commencing in 1991. The environmental consultant engaged by the Banks was asked to conduct an evaluation of information concerning the environmental conditions of the St. Louis River Site with respect to the Duluth plant, including a preliminary estimate of the range of potential costs of remediation. The consultant estimated that the total remediation costs with respect to such portion of the Site could be as high as $88 million and would be incurred over a ten-year period commencing in 1990. Based upon its discussions with the consultants, its continuing investigation of the Site and other information presently available, management believes that, even assuming the Corporation were responsible for any remediation costs associated with the St. Louis River Site, (a) the preliminary cost estimates of the consultant engaged by the Banks greatly exceed any costs which the Corporation may be reasonably expected to incur in this matter and (b) the amounts, if any, which the Corporation may reasonably be expected to incur are significantly less than the preliminary estimate of its own consultant.

Under federal and state laws relating to environmental quality, it is possible that a determination will be made that the Corporation is responsible for some portion or all of the remediation costs associated with the St. Louis River Site with respect to the Duluth plant; however, no such determination has been made. At present, the evaluation of the extent of any contamination and its significance is incomplete. Management is presently unable to determine the extent, if any, to which the Corporation may ultimately be liable for any costs in connection with the remediation or, if any such costs are incurred, the amounts which may be involved or the time period over which they may be incurred. Based upon its evaluation of information presently available to it, management does not believe that this matter is likely to have a material adverse effect on the Corporation's business or consolidated financial condition. However, the Corporation is continuing to monitor and investigate the Site.

NOTE 13—SUBSEQUENT EVENT (UNAUDITED)

Subsequent to the end of 1989, the Corporation reached a tentative agreement to sell its investment castings business. This agreement has not been finalized and is subject to certain conditions, including approval by the Interlake Board of Directors and certain lenders. Management believes that this sale, when completed, will have no material adverse income effects.

Relevant information concerning this business unit includes:	1989	1988	1987
		(in thousands)	
Net sales	**$85,155**	$96,435	$100,043
Operating profit	**$ 1,198**	$ 7,727	$ (7,026)
Current assets	**$31,942**	$33,206	
Long-term assets	**27,751**	29,117	
Total Assets	**$59,693**	$62,323	
Current liabilities	**$ 8,370**	$ 9,346	
Long-term liabilities	**2,318**	5,303	
Total Liabilities	**$10,688**	$14,649	
Investment in Business Unit	**$49,005**	$47,674	

NOTE 14—QUARTERLY RESULTS (UNAUDITED)

Quarterly results of operations for 1989 and 1988 were as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in millions except per share data)			
1989				
Net sales	**$234.1**	**$230.7**	**$225.7**	**$222.4**
Gross profit	**56.0**	**55.2**	**50.0**	**55.1**
Operating income (loss)	**17.0**	**18.5**	**(9.5)**	**14.7**
Interest expense	**3.1**	**2.6**	**3.6**	**16.9**
Income (loss) before taxes and minority interest	**15.1**	**17.8**	**(12.1)**	**(1.5)**
Provision for income taxes	**5.7**	**6.8**	**4.8**	**(2.9)**
Net income (loss)	**8.2**	**9.9**	**(17.6)**	**.5**
Net income (loss) per common share	**.81**	**.98**	**(1.74)**	**.04**
Cash flows before financing activities	**16.8**	**(14.4)**	**5.5**	**20.6**
1988				
Net sales	$212.4	$220.1	$214.5	$245.2
Gross profit	51.0	54.8	51.4	61.8
Operating income	15.1	18.6	15.9	23.8
Interest expense	2.3	2.5	2.9	3.1
Income before taxes and minority interest	15.2	19.5	15.4	22.5
Provision for income taxes	5.9	7.7	6.2	8.8
Net income	8.2	10.5	8.3	12.6
Net income per common share	.76	.98	.79	1.22
Cash flows before financing activities	(7.0)	102.8	(43.0)	(16.6)

Results in 1989 were significantly affected by the Corporation's restructuring program (see Note 2). Costs related to the Recapitalization and Corporate expenses reduced third quarter pretax results by $21.2 million. The businesses to be divested under the Designated Asset Sale Program had a combined pretax loss of $5.2 million for 1989 which reduced results in the four quarters by $.4, $.2, $2.3 and $2.3 million, respectively. This same group of businesses had a combined pretax loss of $5.4 million in 1988 which reduced results in the first and second quarters by $3.6 and $2.5 million, respectively, and increased results in the third and fourth quarters by $.5 and $.2 million, respectively. The higher levels of debt caused a substantial increase in interest expense in the fourth quarter of 1989.

The expenses related to the Corporation's restructuring program had a significant effect on the Corporation's 1989 book tax provision. While foreign income generated an income tax expense, the domestic loss caused by the restructuring program in the third quarter produced an income tax expense, due to the application of alternative minimum tax rules, and limited the availability of foreign tax credits. The impact of these book tax considerations moderated somewhat in the fourth quarter.

In the four quarters of 1989, LIFO inventories were reduced which created benefits to pretax income by $.1, $.1, $.2 and $2.8 million, respectively. In the second, third and fourth quarters in 1988, LIFO inventories were also reduced, creating benefits to pretax income by $.4, $.1 and $1.9 million, respectively.

SELECTED FINANCIAL DATA

	1989	1988	1987	1986	1985
	(dollars in thousands except per share data)				
For the Year					
Net sales of continuing operations	**$912,894**	$892,218	$823,058	$736,009	$635,327
Income from continuing operations	**$ 965**(1)	$ 39,554	$ 54,372(3)	$ 30,720	$ 28,779
Income from continuing operations per common share	**$ .09**(1)	$ 3.75	$ 4.69(3)	$ 2.69(4)	$ 2.59(4)
Cash dividends per common share	**45.75**(2)	1.45	1.35	1.30(4)	1.30(4)
At Year End					
Working capital					
–amount	**$116,676**	$153,170	$191,297	$145,984	$179,838
–current ratio	**1.6 to 1**	1.7 to 1	1.8 to 1	1.8 to 1	1.9 to 1
Total assets	**$594,509**	$660,473	$693,800	$597,059	$729,397
Long-term debt,less current maturities	**523,702**(2)	76,651	82,212	89,644	104,282
Common shareholders' equity	**(202,971)**(2)	269,950	281,312	250,362(5)	351,753

(1) includes unusual items of expense of $26.5 million and increased interest expense due to the restructuring program (see Note 2 of Notes to Consolidated Financial Statements)

(2) includes a special cash dividend of $45 per share paid in connection with the recapitalization of the Corporation and related increases in long-term debt (see Note 2 of Notes to Consolidated Financial Statements)

(3) includes income from unusual items and exceptional charges of $17 million, equivalent to $1.47 per common share

(4) restated for two-for-one stock split in 1986

(5) after the Spin-Off of Acme Steel Company of $131.5 million

1989 was a 53-week year while all other periods were 52-week years

MARKET FOR INTERLAKE'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The principal market for Interlake's common stock is the New York Stock Exchange (ticker symbol IK). Such 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 31, 1989 there were approximately 9,266 holders of record of Interlake's common stock.

High and low stock prices of and dividends on Interlake's common stock for the last two years:

	1989			1988		
	Price		**Per Share Cash Dividends**	Price		Per Share Cash Dividends
	High	**Low**	**Paid**	High	Low	Paid
Calendar Quarter Ended						
March 31	**$45½**	**$38¾**	**$ .375**	$45⅜	$40	$.35
June 30	**48¾**	**38⅞**	**.375**	46¾	41½	.35
September 30	**61¾**	**15¾**	**45.00**	45⅞	38⅝	.375
December 31	**17½**	**13**	**—**	44⅜	39½	.375

The Interlake Corporation

DIRECTORS

James C. Cotting,
Chairman, President and Chief Executive Officer, Navistar International Corporation (manufacturer of medium and heavy duty trucks) [1989]

Arthur G. Hansen,
Adjunct Senior Research Fellow, Hudson Institute (private not-for-profit public policy research organization) [1984]

Howard D. Hosbach,
Retired Executive Vice President-Operations, Business and Financial Information Companies of McGraw-Hill, Inc. and Chairman and Chief Executive Officer of Standard and Poor's Corporation, a subsidiary of McGraw-Hill, Inc. (multi-media information services) [1986]

John E. Jones,
Chairman, President and Chief Executive Officer, CBI Industries, Inc. (industrial gases, construction services and investments) [1988]

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

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

Quentin C. McKenna,
Chairman and Chief Executive Officer, Kennametal, Inc. (manufacturer of metal cutting tools made from cemented carbides and ceramics, machining systems, and materials for applications requiring wear resistance) [1986]

William G. Mitchell,
Retired Vice Chairman, Centel Corporation (communications and electric services) [1984]

W. Robert Reum,
President and Chief Operating Officer, The Interlake Corporation [1987]

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

Edward J. Williams,
Consultant and Director [1964]

[ ] *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 Nominating.*

OFFICERS

Frederick C. Langenberg,
Chairman of the Board and Chief Executive Officer

W. Robert Reum,
President and Chief Operating Officer

Gordon R. Walsh,
Group Vice President

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,
Vice President-Finance and Chief Financial Officer

OPERATING EXECUTIVES

Stephen Gregory,
President, Material Handling Division

Stephen Hinchliff,
Chairman of the Board, Dexion Group plc

James H. Legler,
President, Chem-tronics, Inc.

Robert A. Pedersen,
President, Interlake Packaging Corporation

Edward A. Steigerwald,
President, Arwood Corporation

Ian A. White,
President, Hoeganaes Corporation

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Interlake