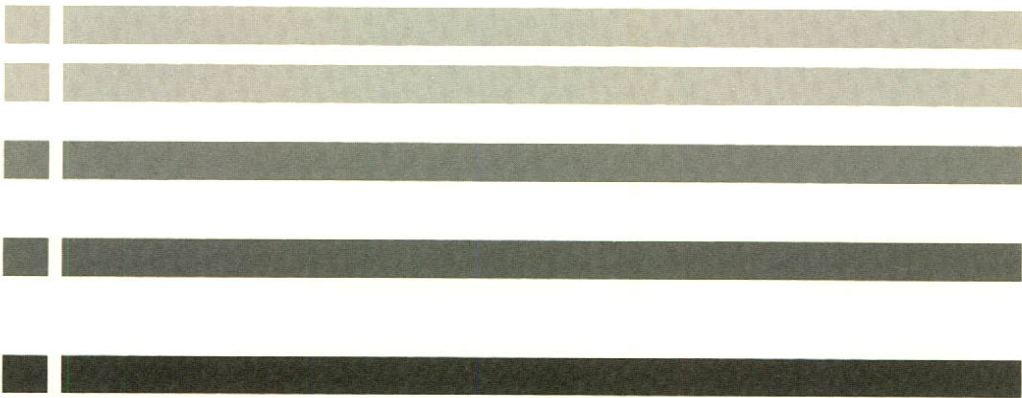
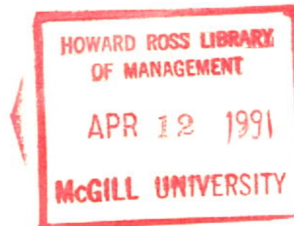
THE INTERLAKE CORPORATION 1990 ANNUAL REPORT





INTERLAKE AT A GLANCE

Interlake is an international manufacturer with five core businesses.

MAJOR PLANT SITES	PRODUCTS/USES	CUSTOMERS	MARKET POSITION
HOEGANAES CORPORATION Gallatin, TN Milton, 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	**Precision machined structures** • Ducts & rings for jet engines	Leading jet engine manufacturers	Largest in this market segment
	Complex fabrications • Advanced military engines & aircraft; missiles & space applications	Prime aerospace contractors	Unique in its array of fabrication technologies
	Aviation repair • Jet engine fan blades & other components	Most major airlines Overhaul centers Leading engine manufacturers	Significant share in this market segment
INTERLAKE MATERIAL HANDLING Blacktown, Australia Lodi, CA Pontiac, IL Shepherdsville, KY Sumter, SC	**Storage rack** • 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
	Retail display equipment		Major presence in Australia
DEXION GROUP plc Gainsborough, U.K. Hemel Hempstead, U.K. Kilnhurst, U.K. Laubach, Germany Nivelles, Belgium	**Storage rack** • Distribution facilities; flexible manufacturing facilities; receiving, shipping, in-process storage **Conveyors and conveyor systems** **Shelving, office partitioning**	Businesses in all size ranges in the U.K., European mainland, Africa, Middle East, 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	**Plastic strapping machines & plastic strapping**	Manufacturers Distributors Textiles	A leader in North America and the U.K.
	Metallic strapping machines & metallic strapping • Carton strapping; securing unit loads, i.e. pallets, textile products, lumber, newspapers	Lumber and forest products Publishers Businesses that ship products in cartons	Largest supplier in Canada; a leader in the U.K.
	Wire stitchers • Boxboard sealing • Book, magazine binding	Businesses that ship products in cartons Graphic arts	

YEAR IN REVIEW

In 1990, Interlake ...

- Increased core business operating income to $72.1 million, 10% above 1989.

- Reduced working capital requirements by $14.4 million, following a $36.9 million reduction in 1989.

- Generated cash flow before financing activities of $75.5 million, including $63.4 million of disposal proceeds.

- Reduced total debt from $555.2 million to $494.6 million.

- Completed the major portion of its divestiture program.

- Sold Arwood Corporation's investment casting business for approximately $54 million.

- Elected W. Robert Reum chief executive officer, succeeding Frederick C. Langenberg.

- Relocated its corporate headquarters to Lisle, Illinois.

STRATEGIC/OPERATING REVIEW

When we began our corporate restructuring program in the fall of 1989, Interlake's management urged shareholders to focus on cash flow and core business operating income as more meaningful measures of our performance. In 1990, we made solid progress in both areas.

Cash Flow and Debt Repayment

Our restructuring action involved a recapitalization that included payment of a special cash dividend of $45 per share, financed by bank loans and subordinated debt. We mentioned then that our restructuring plan's success depended on our core businesses generating sufficient cash flow to service and repay Interlake's debt.

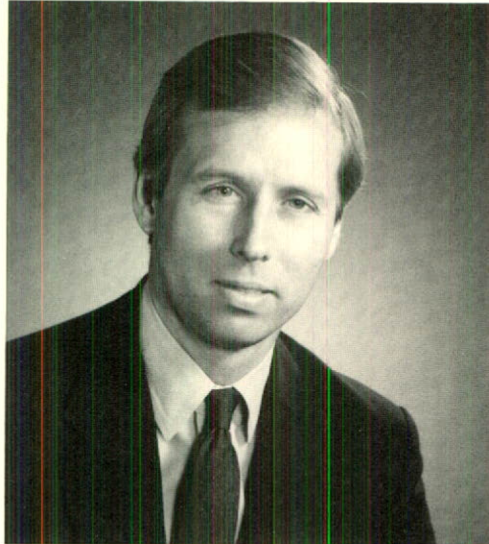
In 1990, cash flow before financing activities was $75.5 million, which included $63.4 million of disposal proceeds. Interlake's operating units reduced working capital requirements by $14.4 million during the year, following a $36.9 million reduction in 1989. Total debt at year end stood at $494.6 million, down $60.6 million from $555.2 million at year end 1989.

Operating Income

On the income side, successful companywide actions to improve productivity and reduce costs contributed to higher earnings for core operations. Core business operating income (excluding unusual items) was $72.1 million on core sales of $753.2 million, a 10% increase over 1989. We achieved reductions both in cost of sales and selling and administrative expense.

Restructuring Progress

In addition to the recapitalization, Interlake's restructuring program also involved: (a) an Employee Stock



W. Robert Reum

Ownership Plan (ESOP) for most domestic employees; (b) major corporate-wide cost reductions; and (c) disposal of certain designated businesses and assets.

Creating the ESOP has provided a focus for employees' involvement in helping to enhance Interlake's value. Maintaining high productivity, solving problems creatively, and renewed emphasis on customer satisfaction are among actions employees are taking to improve results and build long-term value.

During the last 18 months, employees at all business units redoubled their cost reduction efforts. Their actions are also helping Interlake compete more effectively with products offering customers superior value. In addition, during the fourth quarter, our corporate offices were relocated to a smaller space in Lisle, Illinois, and the previous corporate office space was subleased. This cost reduction action will also help cash flow and earnings in the future.

Unlike some other recapitalizations and leveraged buy-outs during the last several years, cash flow from divestitures was never critical to the success of Interlake's recapitalization.

Our divestiture strategy has been to focus management's efforts on core businesses to utilize our significant competitive strengths and raise returns, while divesting businesses which do not add to company value.

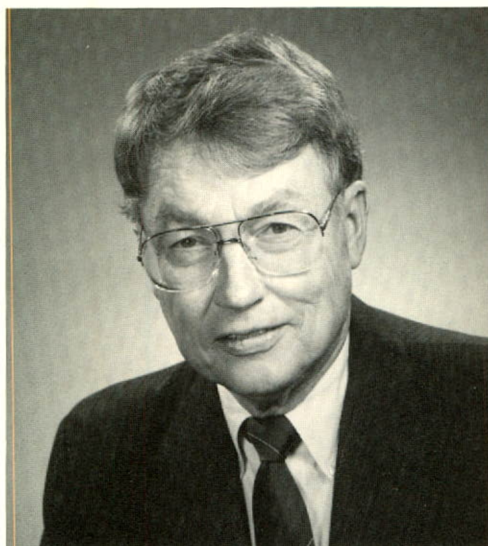
During 1990, performance of businesses earmarked for divestiture was poorer than expected for two key reasons: weaker economies in some countries where we operate and substantial shutdown costs. The designated divestitures are essentially finished. We expect to complete the remaining portions in the first half of 1991 and have made provisions for all projected future costs. Proceeds from planned divestitures will be lower and will be realized later than originally anticipated in 1989.

Although it was not on our original list of businesses to be divested, we found it advantageous to sell Arwood Corporation's investment casting business for approximately $54 million in 1990. The proceeds, net of estimated taxes and transaction fees, were used to pay down our long-term debt.

Financial Position

Long-term debt has been reduced from $555.2 million to $494.6 million since December 1989, and we are ahead of our repayment schedule. Principal debt obligations at year end consisted of $257.8 million in senior bank debt and $200 million of subordinated increasing rate notes.

Although this debt bears interest at floating rates, the corporation has entered into interest rate protection agreements and hedging arrangements which limit interest rates on 69% of the senior bank debt. The terms and costs of Interlake's increasing rate notes continue to be more favorable than other available refinancing alternatives.



Frederick C. Langenberg

However, we continually explore ways to lower the cost of our debt.

Late in the year, our bank group approved certain covenant modifications to the senior bank credit agreement. These changes make it more likely that we will meet the covenants in the current economic climate. At year end, Interlake had available credit facilities of $57.1 million, of which $30.0 million may be used only for scheduled debt repayments.

Through the combination of operating cash flows, other income sources and our available credit, we are confident that in 1991 we can meet our ongoing interest expense and principal repayment obligations, and also continue necessary capital programs.

Strategy

Interlake's primary goal is to enhance shareholder value. We intend to achieve that goal through the growth of our core businesses, which emphasize four key competencies:

- Iron/steel powder metal technology;
- Unit load storage and handling;

- Strapping systems; and
- Integrated fabrication for aerospace, and aviation repair.

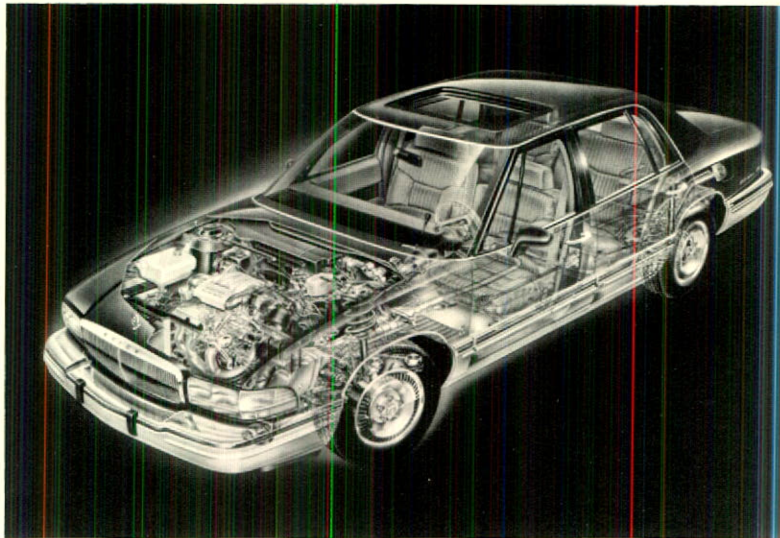
It is anticipated that capital expenditures will be moderate over the next several years, primarily because Interlake's substantial capital spending from 1985 to 1989 has provided necessary capacity and facilities for the near term. We will continue to fund research and development programs and make selective growth investments in our key competencies. We believe this strategy will enable us to maintain and enhance our market shares and competitive strengths.

These strengths include dedicated and high-performing employees; leading market positions; technological leadership where technology is vital; low-cost manufacturing processes; and products with superior value/price relationships.

Our day-to-day operating objective is to produce high-quality, competitively-priced products and deliver them to our customers on time. And we will continue to enhance the value of our products through comprehensive after-sale service and support.

Review of Core Businesses

Organizationally, Interlake consists of five decentralized core businesses and a small corporate staff. Each core business has its own strategic and operating objectives that are integrated with the corporation's overall business and financial strategy.



Usage of powdered metal in U.S.-built cars and light trucks is increasing as design engineers adopt P/M technology for more parts applications. Hoeganaes engineers are developing new materials for additional applications.

Hoeganaes Corporation

Hoeganaes is the market and technology leader in ferrous and alloy powders, sold to customers who primarily manufacture precision parts for automobiles, trucks, farm and garden equipment, appliances and construction machinery. Powder metal (P/M) parts typically require little or no finish machining and result in significant manufacturing savings when produced in large volumes. Hoeganaes also produces powders for office copier toner, brake linings and other applications.

Metal powder sales in 1990 declined 5% from 1989, due primarily to lower car and light truck production by U.S. automobile manufacturers, which in 1990 was at its lowest level since 1984.

1990 marked the first full year of AncorBond® production at Hoeganaes' new Milton, Pennsylvania, plant. This fully automated plant produces truckload quantities of blended powder material to customer specification, and

its central location allows next-day delivery to more than 80% of the powder metallurgy industry.

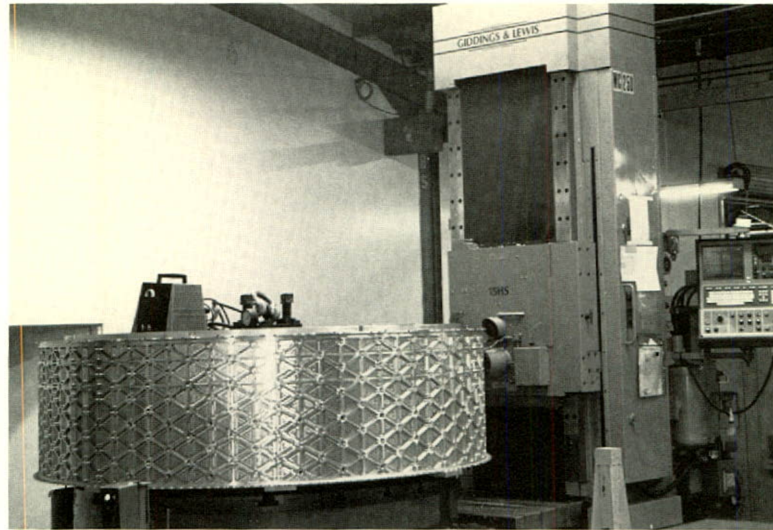
AncorBond is a patented blend technology that bonds precise amounts of alloy additives directly to individual iron particles, resulting in highly consistent properties in finished parts. Customers have verified the benefits of AncorBond technology, and are incorporating it into a wide range of new components.

Hoeganaes engineers continue to expand their alloy development program to incorporate a systems approach to powder metallurgy. Working with customers and utilizing polymers in combination with alloy powders, Hoeganaes researchers are synthesizing new materials designed for specific parts and applications.

Chem-tronics, Inc.

Chem-tronics is a leading producer of high strength components for aerospace applications. We manufacture our components with several high performance lightweight materials including titanium and aluminum alloys. Chem-tronics' precision machined structures and complex fabrications include jet engine ducts, rings and cases, turbine frames, structural aircraft panels and doors, plus other products.

Chem-tronics is also a leading certified repair facility that provides customers a broad range of specialized capabilities for jet engine component repair. We serve over 100 customers, including most major airlines, overhaul centers and leading engine manufacturers, with complete in-house repair of fan and compressor blades for commercial and military jet aircraft throughout the world.



Chem-tronics drew upon its unique range of production capabilities to manufacture this prototype isogrid containment case for a new high-thrust jet engine under development by Rolls-Royce.

Chem-tronics' 1990 sales increased 4% over 1989, reflecting strength in aviation repair and complex fabrications. Our aviation repair business is growing and gained market share during 1990. We are expanding floor space within our existing facility to provide more capacity for new and current customers.

Conversely, manufacturing space allocated to aerospace fabrication is being reduced, reflecting lower government spending for military jet engines. We are emphasizing growth of commercial and space products, as well as developing products for the next generation of advanced tactical military jet engines.

Last year, Chem-tronics began manufacturing new components for the 70,000 pound thrust engines that will power the latest high-capacity, twin engine commercial jetliners being developed by Boeing, McDonnell Douglas and Airbus Industrie. We are also positioning ourselves to be a major fabricator for the next generation of commercial and defense launch platforms.

Chem-tronics is also emphasizing long-term contracts with existing customers. We recently secured long-term agreements with General Electric and Rolls-Royce. These long-term agreements will help provide stable revenues and give evidence of the confidence customers place in our capabilities.

Interlake Material Handling

This group manufactures and markets material handling and storage equipment in North America and Australia. We have the industry's broadest line of storage rack products. Customers use our rack in warehouses, distribution centers, retail stores, and manufacturing plants, to mention only a few applications. Material Handling also produces conveyors and conveyor systems and shelving for retail and industrial markets.

Handling's 1990 sales were 16% below those in 1989, due mainly to cessation of the integrated systems business and recessionary conditions in Australia and Canada. Our Australian company has taken steps to improve results by consolidating manufacturing operations and by work force reductions.

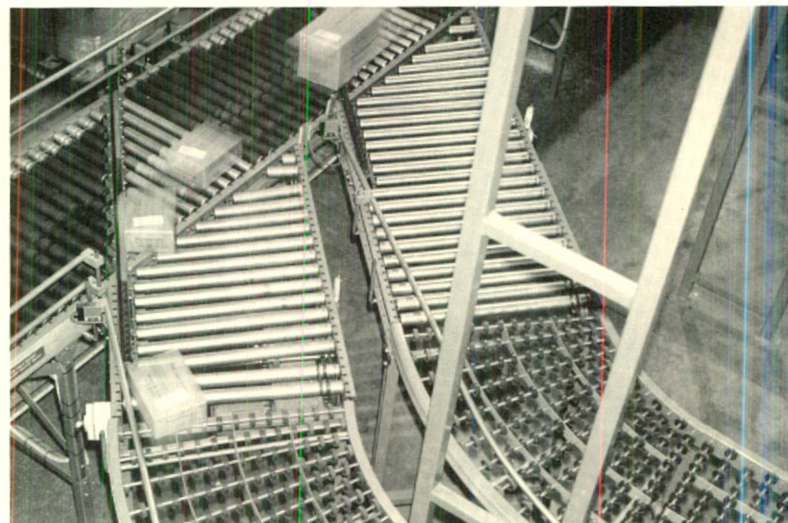
While our Canadian rack and shelving manufacturing operation was shut down in the third quarter, we have maintained our Canadian sales offices. We now serve this market with U.S.-manufactured products, enabling us to offer a wider product range and enhanced engineering and project management capabilities. Initial customer acceptance has been good.

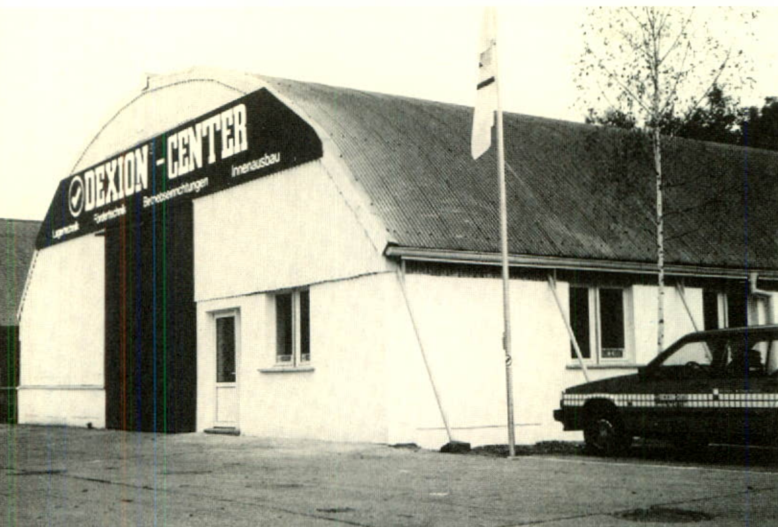
Bookings in the U.S. rack and conveyor businesses during 1990 exceeded the prior year and resulted in significant gains in market share. Cost reductions and productivity improvements—many employee-initiated—continued to lower manufacturing costs at U.S. plants.

Material Handling introduced 15 new or improved products during the year, with special focus on the conveyor product line. For example, our new Australian-designed sorter, being offered in all markets, gives customers very high sortation speeds across a broad range of container sizes, affording major productivity gains. And our new zero-pressure lineshaft accumulation conveyor eliminates carton crushing, product damage and carton-flow problems that plague other accumulation conveyor designs.

Scheduled for 1991 are improvements in structural rack products and "Warehouse Works," Interlake's new voice-activated warehouse inventory control system. We intend to remain the industry leader in products and service.

Material Handling's new "Wallaby" sorter achieves a throughput rate of 130 sorts per minute and handles cartons previously considered unsortable.





In 1990, Dexion opened this storage center in Leipzig, Germany, as part of its expansion into eastern European markets.

Dexion Group plc

Dexion, Interlake's European storage and handling business, has manufacturing plants in the United Kingdom, Germany and Belgium. Dexion is the leading supplier of rack and shelving in the United Kingdom, a market leader in Germany and Belgium, and a major exporter to other countries.

Dexion's 1990 sales, aided by favorable exchange rates, virtually matched those in 1989, despite a slump in the U.K. economy. In addition, U.K. profitability was increased through a combination of productivity improvements and stringent cost controls.

The German and Belgian operations both posted gains, reflecting robust economies in those countries. Overall export sales from European operations increased over 1989.

Dexion's conveyor business returned to profitability in 1990. Like Material Handling in the U.S., Dexion is concentrating on conveyor systems projects and has moved away from the integrated systems business.

A new thrust for Dexion is toward expanding markets in eastern Europe. In 1990, we established two storage centers in eastern Germany. These in-stock distribution centers offer better service and faster delivery than competitors. Two more storage centers are planned for eastern Germany in 1991, and we are also exploring joint manufacturing and distribution arrangements with firms in other eastern European countries.

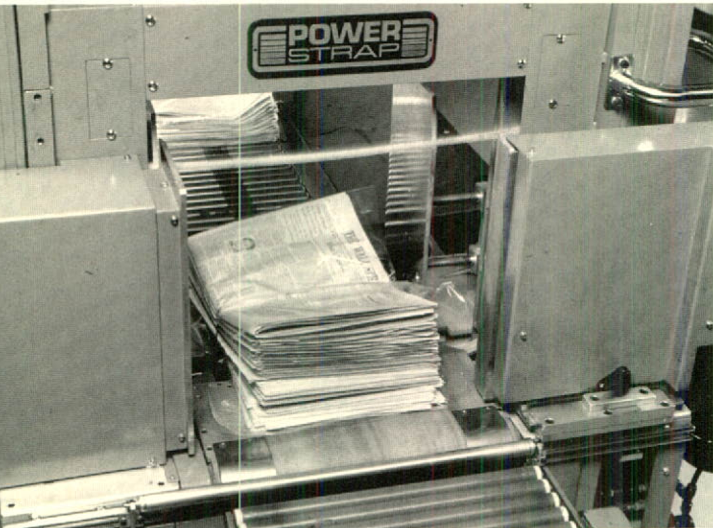
As a market leader that has prepared for the changing economic scene, Dexion is well positioned to compete effectively as the European Community moves toward market unification in 1992.

Interlake Packaging Corporation

Interlake Packaging manufactures and markets strapping and strapping systems in the United States, Canada and England, and wire stitching equipment in the U.S. Our packaging products are used throughout the general packaging market and the newspaper, graphics, corrugated, fiber, food, can, brick and lumber industries.

Interlake Packaging's 1990 sales rose slightly above 1989. Both sales and income benefited from full-year results of the Power companies, acquired in June 1989 (Pakseal Industries, Ltd. in the U.K. and Power Strap, Inc. in the U.S.). These companies market machines and systems that use plastic strapping and special equipment to bundle newspapers and magazines, as well as other applications.

In 1990, Pakseal strengthened its European distributor organization and now markets a full line of plastic strapping machines throughout continental Europe. This market expansion helped offset a slowdown in U.K. business.



The Wall Street Journal *is one of many major U.S. newspapers using dependable Power Strap (now InterPower) PSN-6 strapping machines in their mailrooms.*

In the U.S., Interlake Packaging closed the Sumter, South Carolina, plant and transferred the fabrication of plastic packaging equipment and systems to outside manufacturers. In the fourth quarter, we announced plans to combine the Power Strap and Interlake plastics organizations into a new group called InterPower Packaging Corporation. The new organization will combine the Power narrow gauge high speed product line with the standard Interlake products, giving us greater market strength. We also will realize significant cost savings. New model introductions, planned for 1991, will be enhanced by this combination.

In 1990, the Stitching Products group introduced the BinderyMate™ table top stitcher, which bridges the gap between small electric staplers and heavy duty floor stitchers. We expect this new product will set the standard for light to medium graphics arts stitching applications throughout the world.

Outside the U.S., Interlake Packaging manufactures and markets metallic strapping and strapping systems in Canada and England. Results of these operations were down in 1990, due to recessionary conditions in both countries, especially in the lumber and brick industries. In 1991, we will continue to reduce costs and inventory levels so that we are in a stronger competitive position when these economies turn around.

Outlook for Operations

1991 operating results are highly dependent on the economic environments in which our businesses operate. We have already taken strong steps to adjust our cost structure for what we knew would be lower demand in several of our businesses. Should economic conditions worsen, we have prepared contingency actions to reduce costs even further.

However, we expect several factors to influence 1991 results positively. These include ongoing benefits from permanent cost reductions; the conclusion of our divestitures; the expected synergy and increased efficiency of the new InterPower organization; continued strong demand for rack and shelving products in continental Europe; a return to profitability of the Australian material handling business; plus aggressive marketing and the introduction of new and improved products by all business units.

Because we have well-managed businesses with major market shares in their primary product lines, Interlake is well positioned to benefit from an economic upturn.

W. Robert Reum

W. Robert Reum,
President and Chief Executive Officer

Frederick C. Langenberg

Frederick C. Langenberg,
Chairman of the Board

FINANCIAL REVIEW

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

Interlake completed its first full year following the restructuring program implemented in 1989 (see Note 2 of Notes to Consolidated Financial Statements). In 1990, Interlake focused financial and managerial resources on core businesses, continued major cost reduction programs, divested non-core products and operations, and sold the investment casting business (see Discontinued Operations and Note 3 of Notes to Consolidated Financial Statements). However, 1990 was a year of diverse market conditions which ended with general economic weakness. As a result,

- Operating Profit increased 10% on continuing core operations (before unusual items); 49% overall (after unusual items).
- Working Capital was reduced by $14.4 following a $36.9 reduction in 1989.
- 425,600 shares of common stock were purchased as a result of the establishment of the Employee Stock Ownership Plan in 1989. (A total of 893,739 shares have been purchased out of an intended total of 1,100,000 shares.)
- Total debt was reduced from $555.2 to $494.6.

Results of Operations

The economic environments affecting the markets for the core businesses were generally favorable through the third quarter of 1990. However, year long recessionary conditions reduced demand in Australia, Canada and certain market segments in the United Kingdom.

Richard I. Polanek

Sales from continuing operations of $786.3 in 1990 were down 5% from 1989's record level of $827.7. Several factors affected the comparability of these sales amounts:

- the elimination and close-down of non-core businesses in 1990 vs. 1989 caused a 5% drop;
- the shorter reporting period in 1990 (52 weeks vs. 53 weeks in 1989) caused a 2% decline;
- favorable foreign exchange rates added 4%.

Overall, on a comparable basis, sales of continuing core businesses declined less than 1% in 1990. (In 1989, sales showed an overall gain of 4% over the previous record in 1988 despite a 2% adverse effect of foreign exchange rates.)

Operating income in 1990 was $58.7, compared to $39.3 in 1989. Most of this improvement can be attributed to a $12.7 decline in unusual items of

expense as many of the costs incurred in 1989 (principally recapitalization costs) did not recur in 1990. Excluding unusual items, core business unit income of $72.1 in 1990 increased 10% over 1989's $65.5 as a result of companywide actions to lower costs and improve earnings. Cost of sales declined from 75% of sales to 74%, and SGA remained steady at 17% of sales. (In 1989, operating income was down $26.1 from 1988's $65.4 due to unusual items, largely those related to the recapitalization. Core business unit results remained largely unchanged from year-to-year.)

Sales and Operating Profit by Business Segment

(The following business segment commentary excludes the non-core businesses designated for disposal and other unusual items. 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 (precision machined structures, complex fabrications, and jet engine component repairs).

Sales of the Engineered Materials segment declined 2% in 1990 equaling the shortened reporting period (52 weeks vs. 53 weeks). Hoeganaes' metal powder sales declined 5% from 1989 while U.S. automobile and light truck production experienced a decline of 10%. However, sales of aerospace components increased 4% over 1989, with the largest increase in the complex fabrications.

Operating profit for the segment declined by 15%, due largely to a substantial, unfavorable inventory adjustment and write-offs for customers in Chapter 11 proceedings in aerospace components. In general, cost increases for raw materials, employees, and outside services were recovered through price increases, while operating costs and expenses were reduced.

Sales in 1989 were down 2% from 1988 due largely to second half slowness in U.S. automotive production which lowered metal powders' sales. Operating profit was down 19% due to reduced volumes for metal powders and lower margins on aerospace components, as a result of higher costs on new projects.

The Engineered Materials segment ended 1990 with an order backlog of $132, down from $148 at the end of 1989. The decline was essentially shared by powdered metals, on a downturn in year end 1990 orders compared to a surge of orders in December 1989, and by aerospace components, as multi-year orders were worked down.

Handling/Packaging Systems

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

Segment sales remained steady in 1990. Favorable exchange rates added 5% to sales, while a full year's results for the Power companies contributed a 4% gain. However, these pluses were largely offset by recessionary conditions, particularly in Australia, Canada and the United Kingdom. Packaging sales increased 5%, due mainly to the Power companies. Handling sales declined 2% overall as the 5% favorable effect of foreign

exchange rates was offset by economic slowness.

The segment's operating profit increased 35% over 1989, with improved foreign exchange rates furnishing a 7% gain. Packaging's earnings were up 40%, at comparable exchange rates. A full operating year for the Power companies added 29%, LIFO benefits from reduced inventory quantities added 16%, and the gain on the sale of a small subsidiary added another 10%. Partially offsetting these benefits were the adverse effects of recessionary pressures in Canada and the United Kingdom. Handling's earnings improved 26%, at comparable exchange rates. Most of the improvement was attributed to European operations due to cost reduction efforts and continued strong demand on the Continent. In addition, United States results benefited from favorable LIFO adjustments related to reduced inventory quantities. In other areas, a major decline in earnings in Australia, due to the recession and costs related to restructuring of a product line, was offset by aggressive cost cutting and profit improvements in the United States.

In 1989, Handling/Packaging Systems' sales increased 9% over 1988, despite a 3% adverse effect of foreign exchange rate changes. European businesses advanced 16%, domestic storage rack gained 12%, and a half year's results for the Power companies added 3%, while integrated systems and Automated Guided Vehicles declined 47% and 69%, respectively, due to their phase-out. Segment operating profit increased 4%. The 4% unfavorable effect of foreign exchange rate changes was more than offset by a more profitable product mix and increased production efficiencies in domestic storage rack operations.

Handling/Packaging Systems' backlog at the end of 1990 decreased 11% to $96 versus the previous year-end level of $108, at comparable exchange rates, due largely to the phase-out of integrated systems.

Businesses Designated for Disposal

As part of the restructuring program, certain non-core businesses were designated to be divested (see Note 2 of Notes to Consolidated Financial Statements).

The sale/close-down of these businesses in adverse economic and financing environments has taken longer than originally anticipated, but is nearing completion. Provisions have been made for all expected future costs. 1990 sales of $33.1 were less than half of 1989's $70.9 as all units ceased operations prior to year end 1990. Operating losses (included in unusual items) of $11.3 in 1990 were considerably higher than the $3.8 experienced in 1989 due to substantial shutdown costs. Altogether, the businesses designated for disposal caused 1990 losses of $10.7, furnished pretax liquidation proceeds of $15.7, and ended the year with net assets held for sale of $5.9, which are expected to be liquidated in 1991 for no less than existing book value.

In 1989 the sales of these businesses fell 13% due to declines at certain European operations. Losses on these businesses of $3.8 in 1989 were an improvement from 1988's losses of $5.6.

Unusual Items

Unusual items in 1990 consisted of the results of the non-core businesses

designated to be divested (operating losses of $11.3 and disposal gains of $.6); settlement of a law suit related to activities at the Chem-tronics aerospace unit prior to its 1984 acquisition and a partial settlement (including all monetary claims) of a separate case brought by Chem-tronics involving the same parties ($2.0); and adjustment of estimated recapitalization and restructuring costs ($.8).

Unusual items in 1989 consisted of the results of the non-core businesses designated to be divested ($3.8); Restructuring Program costs of $19.9 (including $16.5 for consultant, advisor and other professional fees and $3.4 for costs related to designated asset divestitures and corporate cost reductions); and stock incentive costs of $2.4 associated with the significant increase in the Corporation's common stock price related to the Restructuring Program.

Interest Expense

The third quarter 1989 recapitalization resulted in a highly leveraged capital structure which substantially increased net interest expense from that point forward. Consequently, net interest expense was $62.0, $19.4, and $1.3 in 1990, 1989, and 1988, respectively. All of the Corporation's recapitalization debt bears interest at floating rates which causes the Corporation to be sensitive to prevailing interest rates. The Corporation has entered into interest rate protection agreements and other interest rate hedging transactions which effectively provide fixed rates of interest or ceiling rates of interest on 69% of the Corporation's bank obligations under the credit agreement.

Preferred Stock Dividend

Dividend income of $.9, $1.4, and $1.4 reported in 1990, 1989, and 1988, 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 1990 redemption of $6.0 will result in lower dividends in 1991. (The final $6.0 redemption is expected in the fourth quarter of 1991.)

Provision for Income Taxes

The high level of net interest expense caused domestic losses which, under 1989 legislation, were not eligible for federal tax benefits in 1990. As a result, the taxes due to foreign and state authorities were not offset by any U.S. federal income tax benefits in 1990 and the Corporation recorded a sizeable tax expense, while reporting a consolidated pretax loss. (Existing losses can be carried forward and tax benefits realized in future years to the extent that domestic income is earned.)

Income taxes were provided at effective rates of 69.4% and 39.5% in 1989 and 1988, respectively. The effective rate in 1989 was high because the book tax provision was adversely affected by the recapitalization. These costs 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.

Discontinued Operations

The Corporation's Arwood subsidiary sold its investment casting business to a subsidiary of Wyman-Gordon

Company for approximately $54.0 in cash on May 18, 1990. The proceeds, net of estimated transaction costs and taxes, were used to prepay Interlake bank debt. The loss from discontinued operations of $8.9 ($.85 per share) consisted of the loss on the sale of the investment casting business of $3.4, operating losses of $3.2, and allocated corporate and interest expenses of $2.3. (See Note 3 of Notes to Consolidated Financial Statements.)

Net Income (Loss)

Significantly higher interest costs, related adverse income tax effects, unusual items of expense, and discontinued operations resulted in a 1990 net loss of $21.8, or $2.07 per share. Net income was $1.0, or $.09 per share in 1989 and $39.6, or $3.75 per share in 1988.

The Recapitalization

On August 10, 1989, the Board of Directors declared a special cash dividend of $45 per share which was paid on September 27, 1989. To finance the dividend, the Corporation borrowed $535.0 in bank loans and subordinated increasing rate notes ($335.0 and $200.0, respectively) 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), which significantly reduced the Corporation's net income in 1989 and resulted in a significant loss in 1990 and increased cash flow requirements.

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. In November 1990, permanent modifications which lowered two major financial covenants, "Cash Flow Coverage Ratio" and "Adjusted Net Worth", were approved under the bank credit agreements. The Corporation's ability to comply with its financial covenants depends on its operating performance, which in turn is subject to prevailing economic conditions and to financial, business, and other factors, including certain factors which are beyond its control.

Liquidity and Capital Resources

Cash Flow

Cash flow before financing activities was $75.5, $28.5, and $36.2 in 1990, 1989, and 1988, respectively. Disposal proceeds of $63.4 are included in the 1990 amount.

Cash flow from operating activities was $24.8, $74.3, and $86.2 in 1990, 1989, and 1988, respectively. The lower cash flow relates to lower net income particularly in 1990 with higher interest expense and losses from unusual items and discontinued operations. 1989's cash flow benefited from a renewed, companywide emphasis on working capital control

which furnished a cash inflow of $36.9. Additional improvements in 1990 provided another $14.4. Future working capital requirements will depend largely on future economic conditions.

Investing activities provided cash of $50.7 in 1990 due to disposal inflows of $63.4. Excluding this benefit, cash flow for investing activities was $12.7, $45.8, and $50.1 in 1990, 1989, and 1988, respectively. Capital spending in 1990 of $14.2 was substantially below the $31.4 in 1989 and $49.1 in 1988. Prior year capital projects provided the capacity for near term growth. 1990 expansion expenditures were $3.2, primarily for Chem-tronics; the balance was for repair and replacement ($9.0), cost reduction ($1.4), and environmental projects ($.6). Acquisition expenditures of $4.3 in 1990 and $21.8 in 1989 related primarily to the June 1989 acquisition of the Power companies (see Note 4 of Notes to Consolidated Financial Statements). In 1988, discontinued operations inflow of $6.0 reflected the sale of the airfoils business of the Arwood Corporation.

Cash flow for financing activities was $74.9, $64.5, and $41.3 in 1990, 1989, and 1988, respectively. 1990's financing activities included scheduled debt retirements, disposal related prepayments, and the net change in revolving debt, plus purchases of treasury stock. 1989's activities were dominated by the recapitalization, while purchases of treasury stock were the major influence in 1988.

Capital Resources

In addition to cash flow from operating activities in 1991, the Corporation expects to complete the liquidation of businesses designated for disposal and to receive the final redemption of redeemable preferred stock. Furthermore, the Corporation, at December 30, 1990, had available credit facilities of $57.1, of which $30.0 may be used only for scheduled debt repayments (with only $20.0 available in any given year). Altogether, the Corporation anticipates that these capital resources will be sufficient to meet its needs in 1991.

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 to 1992 because of the implementation problems associated with its requirements. The Corporation anticipates a favorable impact from this future accounting change when adopted.

FAS 106, issued in December 1990, pertains to postretirement benefits other than pensions. The required adoption dates of this standard are 1993 for domestic plans and 1995 for plans outside the United States. The Corporation has been accruing for liabilities of this type since 1979. Because of its past accrual policies, the Corporation anticipates that the impact of the new standard will not be significant. However, the impact that this standard will have when adopted is not known at this time.

On November 2, 1989, the Employee Stock Ownership Plan borrowed $16.1, guaranteed by the Corporation, and used the proceeds to purchase 1,100,000 shares of common stock

from the Corporation at $14.625 per share. Subsequently, the Corporation undertook a related stock purchase program intended to purchase the lesser of 1,100,000 shares or the number of shares which may be purchased with the $16.1 proceeds received by the Corporation. Through December 30, 1990, the Corporation had purchased 893,739 shares of common stock for $11.1 under this program. The Corporation may purchase an additional 206,261 shares in the future.

The $200.0 of subordinated increasing rate notes (IRNs) outstanding at December 30, 1990 carry a current interest rate of 13.45%, based on the three month LIBOR rate plus a spread. The spread is scheduled to increase by 50 basis points per quarter, to a maximum rate of 18%. In 1990, because of declining LIBOR rates, the increase in the IRN borrowing rate was limited to 114 basis points. Although recognizing the potential for overall increased future interest costs, management believes that the all inclusive annual costs resulting from refinanced IRNs would be higher than the expected IRN costs for at least the next twelve to eighteen months. When market conditions for the refinancing of the IRNs improve, the Corporation will strongly consider refinancing.

The Corporation has several unsettled matters related to the sale of Arwood Corporation's investment casting business to a subsidiary of Wyman-Gordon Company, including issues relating to testing and welding at the former Arwood Cleveland plant. Management does not expect the resolution of such matters to result in a material adverse effect on the Corporation's consolidated financial condition.

Foreign Operations

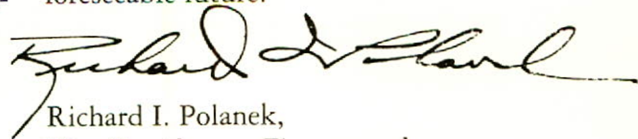
The Corporation does business in a number of foreign countries, mainly through its Handling/Packaging Systems segment. The results of these operations are initially measured in local currencies, principally in British pounds or Canadian dollars, and then translated into U.S. dollars at applicable exchange rates. The results of these operations are sensitive to changes in applicable foreign exchange rates and could have a material effect on the Corporation's results of operations. However, fluctuations in foreign currency exchange rates in 1990 versus 1989 caused increases in sales and operating income of 4% and 7%, respectively. Fluctuations in 1989 decreased sales and operating income by 2% each. (For additional information about the Corporation's operations by geographic area, see Note 5 of Notes to Consolidated Financial Statements.)

Environmental Matters

Some of the Corporation's past and present operations involve activities that are likely to give rise to environmental issues. The Corporation is from time to time involved in proceedings and inquiries relating to environmental matters (see Note 12 of Notes to Consolidated Financial Statements). 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

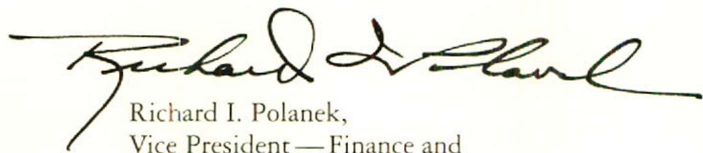
The consolidated financial statements of The Interlake Corporation, presented on pages 17 through 34 of this annual report, have been prepared by management, which is responsible for their accuracy and integrity. They have been prepared in conformity with generally accepted accounting principles, consistently applied, and include informed judgments and estimates, as required. Other financial information in this annual report is consistent with the financial statements.

Interlake's system of internal controls is designed to provide reasonable assurance, at a justifiable cost, as to the reliability of financial records and reporting and the protection of assets. This system includes organizational arrangements with clearly defined lines of responsibility. Internal controls are monitored through recurring internal audit programs.

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

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

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



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

Frederick C. Langenberg,
Chairman of the Board

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 30, 1990 and December 31, 1989, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 1990, 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.

Chicago, Illinois
January 25, 1991

THE INTERLAKE CORPORATION

CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 30, 1990, December 31, 1989 and December 25, 1988

	1990	1989*	1988*
	(in thousands except per share data)		
Net Sales of Continuing Operations	**$786,279**	$827,739	$795,783
Cost of products sold	**578,173**	618,719	591,350
Selling and administrative expense	**135,973**	143,545	139,018
Unusual items	**13,482**	26,146	—
Operating Income	**58,651**	39,329	65,415
Interest expense	**65,671**	23,432	9,749
Interest income	**(3,634)**	(4,000)	(8,499)
Dividend income	**(900)**	(1,350)	(1,425)
Nonoperating (income) expense	**(2,378)**	365	(314)
Income (Loss) from Continuing Operations Before Taxes on Income and Minority Interest	**(108)**	20,882	65,904
Provision for Income Taxes	**8,536**	14,502	26,025
Income (Loss) from Continuing Operations Before Minority Interest	**(8,644)**	6,380	39,879
Minority Interest in Net Income of Subsidiaries	**4,199**	3,983	4,479
Income (Loss) from Continuing Operations	**(12,843)**	2,397	35,400
Income (Loss) from Discontinued Operations, Net of Income Taxes	**(8,908)**	(1,432)	4,154
Net Income (Loss)	**$ (21,751)**	$ 965	$ 39,554
Income (Loss) Per Share of Common Stock:			
Continuing Operations	**$ (1.22)**	$ .23	$ 3.36
Discontinued Operations	**(.85)**	(.14)	.39
Net Income (Loss)	**$ (2.07)**	$ .09	$ 3.75
Average number of shares outstanding	**10,516**	10,291	10,549

** Certain amounts have been reclassified to conform to the presentation in 1990.*

(See notes to consolidated financial statements)

THE INTERLAKE CORPORATION

CONSOLIDATED BALANCE SHEET

December 30, 1990 and December 31, 1989

	1990	1989
	(in thousands)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 18,473	$ 16,181
Receivables, less allowances of $5,513,000 in 1990 and $4,532,000 in 1989	134,941	131,401
Inventories	84,867	103,267
Net assets held for sale	5,854	37,367
Other current assets	21,314	19,845
Total Current Assets	265,449	308,061
Goodwill and Other Assets:		
Goodwill, less accumulated amortization of $11,510,000 in 1990 and $9,120,000 in 1989	44,165	39,732
Other assets	42,770	52,908
Total Goodwill and Other Assets	86,935	92,640
Property, Plant and Equipment, net	166,613	193,808
Total Assets	$518,997	$594,509
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 60,635	$ 66,887
Accrued liabilities	58,507	53,940
Accrued salaries and wages	14,752	15,315
Income taxes payable	26,920	23,752
Debt due within one year	34,615	31,491
Total Current Liabilities	195,429	191,385
Long-Term Debt	460,000	523,702
Other Long-Term Liabilities	32,087	29,663
Future Income Taxes	41,287	37,227
Commitments and Contingencies	—	—
Minority Interest	17,002	15,503
Shareholders' Equity:		
Common stock, par value $1 per share, authorized 100,000,000 shares, issued 11,740,695 in 1990 and 1989	11,741	11,741
Cost of common stock held in treasury (1,351,302 shares in 1990 and 900,186 shares in 1989)	(30,685)	(24,472)
Retained earnings (Accumulated deficit)	(182,654)	(160,512)
Unearned compensation	(16,064)	(19,582)
Accumulated foreign currency translation adjustments	(9,146)	(10,146)
Total Shareholders' Equity	(226,808)	(202,971)
Total Liabilities and Shareholders' Equity	$518,997	$594,509

(See notes to consolidated financial statements)

THE INTERLAKE CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Years Ended December 30, 1990, December 31, 1989 and December 25, 1988

	1990	1989 (in thousands)	1988
Cash flows from (for) operating activities:			
Net Income (Loss)	$ (21,751)	$ 965	$ 39,554
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Loss on divestitures	2,356	—	—
Depreciation and amortization	27,146	30,300	26,100
Unusual items	—	4,434	—
Other operating adjustments	2,646	1,736	6,239
(Increase) Decrease working capital:			
Accounts receivable	9,489	33,755	(21,475)
Inventories	22,565	11,009	(15,588)
Prepaid pension asset	—	—	98,000
Other current assets	2,035	5,480	(6,338)
Accounts payable	(14,503)	(2,138)	163
Other accrued liabilities	(9,384)	(8,410)	(10,528)
Income taxes payable	4,160	(2,817)	(29,878)
Total working capital change	14,362	36,879	14,356
Net cash provided by operating activities	24,759	74,314	86,249
Cash flows from (for) investing activities:			
Capital expenditures	(14,249)	(31,425)	(49,091)
Proceeds from disposal of PP&E	1,122	1,220	1,043
Acquisitions	(4,297)	(21,812)	(8,534)
Partial redemptions of preferred stock received from 1984 business disposition	6,000	6,000	4,000
Divestitures	63,442	—	5,990
Other investment flows	(1,294)	173	(3,475)
Net cash provided (used) by investing activities	50,724	(45,844)	(50,067)
Cash flows before financing activities	75,483	28,470	36,182
Cash flows from (for) financing activities:			
Proceeds from issuance of short-term debt	—	37,779	39,176
Retirements of short-term debt	—	(85,025)	(21,108)
Proceeds from issuance of long-term debt	111,754	560,339	—
Retirements of long-term debt	(181,462)	(105,894)	(6,155)
Dividends	—	(470,677)	(15,275)
Sale of treasury stock	—	16,088	—
Purchase of treasury stock	(4,313)	(9,004)	(38,916)
Other financing flows	(875)	(8,151)	934
Net cash used by financing activities	(74,896)	(64,545)	(41,344)
Effect of exchange rate changes	1,705	1,802	(935)
Increase (Decrease) in cash and cash equivalents	$ 2,292	$ (34,273)	$ (6,097)

(See notes to consolidated financial statements)

THE INTERLAKE CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the Years Ended December 30, 1990, December 31, 1989 and December 25, 1988

	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 27, 1987	11,741	$ 97,119	(736)	$(28,195)	$ 225,127	$ (3,581)	$ (9,158)	$281,312
Net Income					39,554			39,554
Dividends Declared					(15,215)			(15,215)
Stock Incentive Plans		(350)	36	1,286		1,317		2,253
Treasury Stock			(914)	(38,916)				(38,916)
Translation Gain							962	962
Balance December 25, 1988	11,741	96,769	(1,614)	(65,825)	249,466	(2,264)	(8,196)	269,950
Net Income					965			965
Dividends Declared		(85,279)			(381,589)			(466,868)
Stock Incentive Plans		251	126	4,880	(114)	(1,432)		3,585
Treasury Stock			(522)	(9,004)				(9,004)
ESOP Transactions			1,110	45,477	(29,240)	(15,886)		351
Translation Loss							(1,950)	(1,950)
Balance December 31, 1989	**11,741**	**11,741**	**(900)**	**(24,472)**	**(160,512)**	**(19,582)**	**(10,146)**	**(202,971)**
Net Income (Loss)					**(21,751)**			**(21,751)**
Stock Incentive Plans			**(26)**	**(1,900)**		**2,613**		**713**
Treasury Stock			**(425)**	**(4,313)**	**(391)**			**(4,704)**
ESOP Transactions						**905**		**905**
Translation Gain							**1,000**	**1,000**
Balance December 30, 1990	**11,741**	**$ 11,741**	**(1,351)**	**$ (30,685)**	**$ (182,654)**	**$ (16,064)**	**$ (9,146)**	**$(226,808)**

(See notes to consolidated financial statements)

THE INTERLAKE CORPORATION
Notes to Consolidated Financial Statements
For the Years Ended December 30, 1990, December 31, 1989
and December 25, 1988

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 64% and 68% of gross inventories at December 30, 1990 and December 31, 1989, respectively. The current cost of these inventories exceeds their valuation determined on a LIFO basis by $26,165,000 at December 30, 1990 and by $33,016,000 at December 31, 1989.

During 1990 and 1989, 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 1990 and 1989. As a result, pretax income from core operations in 1990 and 1989 was increased by $5,623,000 and $2,765,000, respectively. Pretax income from non-core operations in 1990 and 1989 was increased by $3,272,000 and $201,000, respectively, and discontinued operations was increased by $257,000 in 1989.

December 30, 1990 and December 31, 1989 inventory amounts by category were:

	1990	1989
	(in thousands)	
Raw materials	$ 12,628	$ 14,788
Semi-finished and finished products	61,037	76,075
Supplies	11,202	12,404
	$ 84,867	$103,267

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 generally credited or charged to nonoperating income. (In 1990, gains and losses on disposals related to the restructuring program (see Note 2) were included in operating income as unusual items.)

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 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.

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 to be disposed of (the Designated Asset Sale Program) and implemented major Corporate cost reductions. The Corporate cost reduction actions involved provisions for severances and relocations of $2,280,000 which were charged to unusual items during 1989, with an additional provision of $1,248,000 in 1990. The businesses to be divested under the Designated Asset Sale Program included (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 1990, two of the Dexion businesses were reevaluated and were redesignated as core businesses. The remaining designated businesses were sold or shut down in 1990. The combined sales of these businesses were $33,120,000 and $70,940,000, and operating losses (reported as part of unusual items) were $11,354,000 and $3,769,000 in 1990 and 1989, respectively. The gain on disposal of these businesses and the Corporate aircraft was $643,000 in 1990 (reported as part of unusual items). At the end of 1989, net assets held for sale under the restructuring program were $37,367,000 (consisting of working capital items of $18,097,000 and long-term assets of $19,270,000). At the end of 1990, net assets held for sale were $5,854,000 (consisting of working capital items of ($509,000) and long-term assets of $6,363,000). The principal properties held for sale were the packaging plant in Sumter, South Carolina and the handling plant in Weston, Ontario, Canada. Management believes that the net recorded value of the assets held for sale approximates realizable value.

NOTE 3—DISCONTINUED OPERATIONS

On May 18, 1990 the Corporation announced that its subsidiary, Arwood Corporation, had completed the sale of its investment casting business to a subsidiary of Wyman-Gordon Company for approximately $54 million in cash. The proceeds, net of estimated transaction costs and taxes, were used to prepay Interlake bank debt. The disposal resulted in a loss of $3,368,000 (including the recapture of U.S. investment tax credits). Operating losses ($3,251,000) and allocated corporate and interest expenses ($2,289,000) resulted in an overall loss of $8,908,000 ($.85 per share) for 1990.

	For The Year		
	1990	1989	1988
	(in thousands)		
Net sales	**$ 29,400**	$ 85,155	$ 96,435
Income (Loss) from discontinued operations less related income tax provision of zero in 1990, $138,000 in 1989, and $2,544,000 in 1988	**$ (5,540)**	$ (1,432)	$ 4,154
Loss on disposal after applicable income tax provision of $393,000	**(3,368)**	—	—
Total income (loss) from discontinued operations	**$ (8,908)**	$ (1,432)	$ 4,154

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 Cleveland, Ohio, along with its wholly owned subsidiary Power Polystrap of Jacksonville, Florida, which was sold in January 1990. 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. Two of three earn-out payments have been made in 1990 and 1989 for $3,961,000 and $3,490,000, respectively, and are being amortized on a straight-line basis over a nine and ten-year period, respectively.

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 (precision machined structures, complex fabrications and jet engine component repairs).

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 1990, 1989 and 1988. 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. 'Corporate Items' includes unusual items of income of $1,941,000 in 1990 and expense of $22,377,000 in 1989. 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, and net assets related to closed plants and discontinued operations.

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

	Engineered Materials	Handling/ Packaging Systems
	(in millions)	
1990		
Businesses to be divested *	**$(2.3)****	**$(11.0)****
Liquidation of LIFO inventory quantities	**.2**	**5.4**
Litigation settlement	**(2.0)****	—
1989		
Businesses to be divested *	$ (1.2)**	$ (2.6)**
Liquidation of LIFO inventory quantities	—	2.9
1988		
Businesses to be divested *	$ (1.7)	$ (3.9)
Liquidation of LIFO inventory quantities	—	2.3

* Businesses to be divested under the Designated Asset Sale Program (see Note 2).
** Included in unusual items.

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	**1990**	**$198.3**	**$22.5**	**$173.5**	**$11.8**	**$ 6.2**
	1989	203.5	30.4	187.8	11.5	13.1
	1988	205.4	37.4	191.1	10.5	16.9
Handling/Packaging Systems	**1990**	**588.0**	**36.0**	**311.9**	**13.7**	**7.4**
	1989	624.2	32.4	319.8	14.5	15.8
	1988	590.4	29.6	312.7	11.3	25.9
Corporate Items/ Eliminations	**1990**	**—**	**(58.6)**	**33.6**	**1.6**	**.7**
	1989	—	(41.9)	86.9	4.3	2.5
	1988	—	(1.1)	156.7	4.3	6.3
Consolidated	**1990**	**786.3**	**(.1)**	**519.0**	**27.1**	**14.3**
	1989	827.7	20.9	594.5	30.3	31.4
	1988	795.8	65.9	660.5	26.1	49.1

(a) includes sales in

		1990	1989	1988
—Engineereed Materials:	Special Materials	**$122.5**	$130.4	$131.9
	Aerospace Components	**75.8**	73.1	73.5
—Handling/Packaging Systems:	Handling	**440.7**	480.9	446.8
	Packaging	**147.3**	143.3	143.6

The following table presents information about the Corporation's operations by geographic area. 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. Sales to domestic and foreign government agencies are not material.

INFORMATION ABOUT THE CORPORATION'S OPERATIONS BY GEOGRAPHIC AREA

	Year	Net Sales		Operating Profit	Assets at Year End
		Customers	Intergeographic		
		(in millions)			
United States	**1990**	**$388.6**	**$ 3.6**	**$ 39.5**	**$265.3**
	1989	414.8	3.8	38.9	285.9
	1988	408.1	3.5	43.2	282.3
Western Europe	**1990**	**291.3**	**2.1**	**18.7**	**133.4**
	1989	283.8	1.0	14.7	130.7
	1988	265.6	.7	17.5	152.8
Canada and Australia	**1990**	**106.4**	**.8**	**.3**	**86.7**
	1989	129.1	.4	9.2	91.0
	1988	122.1	.3	6.3	68.7
Corporate Items/ Eliminations	**1990**	—	**(6.5)**	**(58.6)**	**33.6**
	1989	—	(5.2)	(41.9)	86.9
	1988	—	(4.5)	(1.1)	156.7
Consolidated	**1990**	**786.3**	—	**(.1)**	**519.0**
	1989	827.7	—	20.9	594.5
	1988	795.8	—	65.9	660.5

NOTE 6—INCOME TAXES

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

	1990	1989	1988
	(in thousands)		
Current:			
U.S. Federal	**$ (550)**	$ 2,735	$51,077
State	**2,698**	2,227	2,876
Foreign	**7,308**	10,082	10,472
Total	**9,456**	15,044	64,425
Deferred:			
U.S. Federal	**—**	(873)	(38,222)
State	**—**	—	—
Foreign	**(920)**	331	(178)
Total	**(920)**	(542)	(38,400)
Tax Provision	**$ 8,536**	$14,502	$26,025

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.

In 1990, the high level of net interest expense caused domestic losses which under 1989 legislation were not currently eligible for federal tax benefits. As a result, the taxes due to foreign and state authorities were not offset by any U.S. Federal income tax benefits in 1990 and the Corporation recorded a tax expense, while reporting a consolidated pre-tax loss. (Existing losses can be carried forward and tax benefits realized in future years to the extent that domestic income is earned.)

Because of the Corporation's tax situation in 1990, effective tax rate analysis is not meaningful. However, the effective income tax rates for 1989 and 1988 are reconciled to the federal statutory tax rate in the following table:

	1989	1988
Statutory federal income tax rate	34.0%	34.0%
Increase (Reduction) in taxes resulting from:		
Taxes on foreign income	13.2	3.8
Alternative minimum tax	7.9	—
Effect of dividends from foreign subsidiaries	8.9	(1.9)
State income taxes	7.0	2.9
Nondeductible acquisition costs	1.1	.2
Excise tax	—	.4
All other	(2.7)	.1
	69.4%	39.5%

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 $7,273,000, $14,882,000, and $60,272,000, in 1990, 1989, and 1988, respectively.

Income from foreign operations included in consolidated income before taxes was $9,677,000, $22,550,000, and $22,952,000, for 1990, 1989, and 1988, respectively.

As of December 30, 1990 U.S. Federal income tax returns for the years 1985 through 1987 were in the process of examination. All prior years have been examined, and all assessments have been paid, except for the years 1982 through 1984, 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 $34,599,000 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.

	1990	1989
	(in thousands)	
Plan assets at fair value	**$127,040**	$131,968
Actuarial present value of accumulated benefit obligation:		
• Vested benefits	**90,011**	78,064
• Non-vested benefits	**1,108**	3,098
	91,119	81,162
Effect of assumed future compensation increases	**24,437**	17,894
Projected benefit obligation for service to date	**115,556**	99,056
Plan assets in excess of projected benefit obligation	**11,484**	32,912
Items not yet recognized in earnings:		
• Unrecognized net asset at December 28, 1986 (being recognized over 15 years)	**24,815**	24,747
• Unrecognized net actuarial gain (loss)	**(18,477)**	6,081
• Unrecognized prior service cost	**(1,072)**	(116)
	5,266	30,712
Prepaid (Accrued) pension liability	**$ 6,218**	$ 2,200

Net pension cost (income) included in operating income from continuing operations for these plans consists of the following components:

	1990	1989	1988
		(in thousands)	
Service cost	**$ 4,000**	$ 3,608	$ 3,190
Interest cost	**8,747**	6,595	5,995
Actual return on plan assets	**6,511**	(21,292)	(9,815)
Net amortization and deferred items	**(21,030)**	11,462	992
Net pension cost (income)	**$ (1,772)**	$ 373	$ 362

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%

Sale of the investment casting business resulted in a curtailment of related pension plans, benefiting discontinued operations by $1,389,000.

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 continuing operations was $2,710,000, $2,542,000, and $3,140,000, in 1990, 1989, and 1988, respectively. Annual contributions to defined contribution plans are equal to the amounts accrued during the year.

The Corporation also has postretirement health care and death benefit plans covering certain domestic employees. The provision for postretirement 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 profit was $1,210,000, $1,231,000, and $1,277,000, in 1990, 1989, and 1988, respectively. The provision for plans

covering previously closed locations, where liabilities have been fully accrued, is included in non-operating income and was $223,000, $1,168,000, and $1,752,000, in 1990, 1989, and 1988, respectively. Favorable actual cost experience resulted in a lower actuarial present value at year end 1990, which reduced expenses provided in 1990. The postretirement benefits are not funded. The accumulated liability for postretirement medical and death benefits was $20,574,000 and $21,549,000 in 1990 and 1989, respectively.

NOTE 8—SHAREHOLDERS' EQUITY

On September 27, 1989 a special dividend payment of $45 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.

There were 11,740,695 shares issued at the end of 1990 and 1989. 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.

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 (see Note 2). 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. As of December 30, 1990 a total of 893,739 shares had been acquired at a cost of $11,083,000.

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"), subsequently approved 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.

Substantially all of the shares authorized for the granting of benefits under the 1989 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 1989 Program and its predecessors follows:

	1990		1989	
	Shares	Average Price	Shares	Average Price
Stock Options:				
Outstanding-beginning of year	**1,719,623**	**$ 13.47**	273,766	$ 37.50
Adjustment for special dividend	**—**	**—**	437,079	—
Granted	**47,500**	**14.63**	1,125,000	14.63
Exercised	**—**	**—**	(78,952)	28.49
Surrendered for exercised S.A.R.'s	**—**	**—**	(21,625)	34.18
Canceled or expired	**(218,859)**	**13.69**	(15,645)	37.41
Outstanding-end of year	**1,548,264**	**13.48**	1,719,623	13.47
Exercisable-end of year	**434,948**	**11.26**	303,321	10.88

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 30, 1990	December 31, 1989
	(in thousands)	
Subordinated Increasing Rate Notes	**$200,000**	$200,000
Term Loans	**148,466**	225,000
Revolving Loans	**94,401**	78,200
ESOP Note	**14,981**	15,886
Obligations under long-term lease agreements	**12,365**	12,900
Pollution control and industrial development loan agreements	**15,650**	15,650
Other	**8,752**	7,557
	494,615	555,193
Less-current maturities	**34,615**	31,491
	$460,000	$523,702

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. 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. The scheduled repayment for 1991 is $33,000,000 for term loans. On November 2, 1989, the ESOP borrowed $16,088,000 (guaranteed by the Corporation), with a scheduled repayment of $1,207,000 for 1991.

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 funds under the revolving and term facilities at the prime rate plus 3/4 or 1 percent, or various London Interbank Offered Rates (LIBOR) plus 1 3/4 or 2 percent, dependent on reaching certain predetermined covenant levels and adjusted periodically. Borrowings under the delayed draw term and deferred

term loans would be at the prime rate or LIBOR plus somewhat higher percentages (at December 30, 1990 there were no borrowings under these facilities). The Credit Agreement borrowing rates at December 30, 1990 ranged from 9.875% to 16.1875%. At the end of 1990, the Corporation had entered into interest rate hedging arrangements limiting interest rates on $177,000,000 of debt to 8.6% plus the applicable spread.

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, 1990, bore interest at an annual rate of 13.45313% (to be reset quarterly at the three month 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 1990 are as follows:

1991	1992	1993	1994	1995
$34,615,000	$29,561,000	$28,502,000	$30,666,000	$30,688,000

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 repurchases 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 annual 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 30, 1990 foreign units of the Corporation had dollar denominated debt of $44,252,000 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 $67,383,000, $23,027,000, and $10,621,000 in 1990, 1989, and 1988, respectively.

At December 30, 1990 the Corporation had unamortized deferred debt issuance costs of $9,331,000 which are being amortized as part of interest expense over the lives of the various debt issues (generally eight years from October 1, 1989).

At the end of 1990, Interlake had available credit facilities of $57,104,000 of which $30,000,000 may be used only for scheduled debt repayments (with only $20,000,000 available in any given year).

NOTE 11—PROPERTY, PLANT AND EQUIPMENT

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

	December 30, 1990	December 31, 1989
	(in thousands)	
At cost:		
Land	**$ 7,244**	$ 7,017
Buildings	**75,124**	83,859
Equipment	**260,583**	276,520
Construction in progress	**6,257**	6,209
	349,208	373,605
Less-Depreciation and amortization	**(182,595)**	(179,297)
-Restructuring adjustments	**—**	(500)
	$ 166,613	$ 193,808

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 on behalf of the Banks 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.

The Corporation learned, early in the third quarter, 1990, that certain tests relating to some castings produced at the Cleveland plant of Arwood Corporation, an Interlake subsidiary, were not performed and that certain products manufactured at the plant were welded without the specific written authorization of customers.

The Cleveland plant of Arwood Corporation was sold to a subsidiary of Wyman-Gordon Company in May of 1990. Wyman-Gordon made Interlake aware of the testing and welding problems and has implemented corrective procedures. Management does not expect the resolution of these matters to result in a material adverse effect on the Corporation's consolidated financial condition.

NOTE 13—QUARTERLY RESULTS (UNAUDITED)

Quarterly results of operations for 1990 and 1989 were as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
	(in millions except per share data)			
1990				
Net sales of continuing operations	**$198.6**	**$204.3**	**$196.2**	**$187.2**
Gross profit	**53.0**	**56.2**	**50.2**	**48.7**
Operating income	**15.2**	**19.1**	**10.1**	**14.3**
Interest expense	**17.3**	**16.3**	**16.1**	**16.0**
Provision for income taxes	**.7**	**3.0**	**.9**	**3.9**
Income (Loss) from continuing operations	**(.9)**	**(1.0)**	**(7.3)**	**(3.6)**
Income (Loss) from discontinued operations	**(1.4)**	**(7.5)**	**—**	**—**
Net income (loss)	**(2.3)**	**(8.5)**	**(7.3)**	**(3.6)**
Income (Loss) per common share:				
Continuing Operations	**(.07)**	**(.10)**	**(.70)**	**(.35)**
Discontinued Operations	**(.15)**	**(.70)**	**—**	**—**
Net Income (Loss)	**(.22)**	**(.80)**	**(.70)**	**(.35)**
Cash flows before financing activities	**7.6**	**64.0**	**6.6**	**(2.7)**
1989				
Net sales of continuing operations	$210.4	$208.0	$206.8	$202.5
Gross profit	53.7	53.1	50.0	52.2
Operating income (loss)	15.8	17.6	(8.8)	14.7
Interest expense	2.8	2.3	3.3	15.0
Provision for income taxes	5.7	6.7	4.9	(2.8)
Income (Loss) from continuing operations	7.4	9.3	(16.5)	2.2
Income (Loss) from discontinued operations	.8	.6	(1.1)	(1.7)
Net income (loss)	8.2	9.9	(17.6)	.5
Income (Loss) per common share:				
Continuing Operations	.72	.93	(1.63)	.21
Discontinued Operations	.09	.05	(.11)	(.17)
Net Income (Loss)	.81	.98	(1.74)	.04
Cash flows before financing activities	16.8	(14.4)	5.5	20.6

Results in 1990 and 1989 were significantly affected by the Corporation's restructuring program (see Note 2) and by the results of a discontinued operation (see Note 3). Unusual items in 1990 consisted of the results of the non-core businesses designated to be divested, net disposal gains on such businesses divested, settlement of a lawsuit, and adjustment of estimated recapitalization and restructuring costs totalling $3.5, $3.6, and $6.4 million, respectively, in the first three quarters with a breakeven in the fourth quarter. In 1989, unusual items were $.7, $.4, $23.7, and $1.3 million, respectively, in the four quarters consisting of the results of the non-core businesses designated to be divested, restructuring program costs and stock incentive costs.

In the third and fourth quarters of 1990, LIFO inventories were reduced which created benefits to pretax income from core businesses by $.3 and $5.3 million, respectively, and from non-core businesses by $3.3 million in the fourth quarter. In the four quarters of 1989, similar benefits increased pretax income from core businesses by $.1, $.1, $.2, and $2.6 million, respectively, and from non-core businesses by $.2 million in the fourth quarter.

The increase in interest expense related to the Corporation's restructuring program resulted in a 1990 U.S. domestic loss, which, due to 1989 tax law changes, did not generate a mitigating income tax benefit, while foreign earnings generated a foreign income tax liability. In 1989, the application of alternative minimum income tax rules had a similar impact on income tax provisions.

SELECTED FINANCIAL DATA

	1990	1989	1988	1987	1986
	(dollars in thousands except per share data)				
For the Year					
Net sales of continuing operations	**$786,279**	$827,739	$795,783	$723,015	$638,810
Income (Loss) from continuing operations	**$ (12,843)(1)**	$ 2,397(1)	$ 35,400	$ 60,894(3)	$ 28,137
Income (Loss) from continuing operations per common share	**$ (1.22)(1)**	$ .23(1)	$ 3.36	$ 5.25(3)	$ 2.46(4)
Cash dividends per common share	—	45.75(2)	1.45	1.35	1.30(4)
At Year End					
Working capital					
— amount	**$ 70,020**	$116,676	$153,170	$191,297	$145,984
— current ratio	**1.4 to 1**	1.6 to 1	1.7 to 1	1.8 to 1	1.8 to 1
Total assets	**$518,997**	$594,509	$660,473	$693,800	$597,059
Long-term debt, less current maturities	**460,000**	523,702(2)	76,651	82,212	89,644
Common shareholders' equity	**(226,808)**	(202,971)(2)	269,950	281,312	250,362

(1) includes unusual items of expense of $13.5 million and $26.1 million in 1990 and 1989, respectively, 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

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 30, 1990 there were approximately 8,776 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:

	1990			1989		
	Price		Per Share Cash Dividends Paid	Price		Per Share Cash Dividends Paid
	High	Low		High	Low	
Calendar Quarter Ended						
March 31	**$14 3/8**	**$6 1/4**	$ —	$45 1/2	$38 3/4	$ .375
June 30	**14**	**7 3/8**	—	48 3/4	38 7/8	.375
September 30	**8 1/2**	**5 5/8**	—	61 3/4	15 3/4	45.00
December 31	**6 3/8**	**3 1/8**	—	17 1/2	13	—

The Interlake Corporation

DIRECTORS

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

Arthur G. Hansen,
Higher Education Consultant [1984]

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

Frederick C. Langenberg,
Chairman of the Board, 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 of the Board and Chief Executive Officer, Kennametal, Inc. (manufacturer of metal cutting tools, 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 Executive Officer, The Interlake Corporation [1987]

Erwin E. Schulze,
Retired 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 of various organizations [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

W. Robert Reum,
President and Chief Executive Officer

Raymond T. Anderson,
Treasurer

David R. Downs,
Vice President-Human Resources

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 and Managing Director, Dexion Group plc

James Legler,
President, Chem-tronics, Inc.

Robert A. Pedersen,
President, Interlake Packaging Corporation

Ian A. White,
President, Hoeganaes Corporation

Interlake's directors were saddened by the death in 1990 of Howard D. Hosbach, a retired executive from McGraw-Hill, Inc. and Interlake director since 1986. He will be missed.

Fred Langenberg

Fred Langenberg retires as Interlake's chairman following the April 1991 annual meeting. Pending reelection at that meeting, he will continue to serve on Interlake's board.

Fred joined Interlake as president and chief operating officer in 1979, became chief executive officer in 1982 and was elected chairman in 1983.

In his first years with Interlake, Fred directed the final decentralization of business groups, which promoted an entrepreneurial environment within each group and gave operating management greater authority and responsibility for decision-making and profitability.

In what he considers his most significant accomplishment, Fred takes pride in the management team he has helped assemble over the past several years. Under his direction, Interlake managers stepped up R&D and new product development programs throughout the corporation—programs designed to meet the needs and trends of the markets Interlake serves.

Today's Interlake results from a management effort encompassing selected divestitures, acquisitions and internal investments that have transformed the company from a commodity/basic metals producer to a diversified, technology-based enterprise with leading market shares for most of its core products worldwide. The 1989 restructuring and recapitalization provided immediate value to shareholders while positioning Interlake's core businesses for future growth.

The corporation will benefit from his years of experience and perspective as Fred continues his service as a director.

SHAREHOLDER INFORMATION

Annual Meeting

Shareholders are invited to attend the Corporation's Annual Meeting at 10:00 a.m. local time on Thursday, April 25, 1991. The location will be at Interlake Material Handling Division's Pontiac Plant, Rts. 66 & 23, Pontiac, Illinois.

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.

Transfer Agent

Please address questions about your Interlake common stock to the transfer agent: The First Chicago Trust Company of New York, 30 West Broadway, New York, NY 10007; (800) 446-2617.

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, 550 Warrenville Road, Lisle, Illinois 60532-4387.

Interlake

The Interlake Corporation

550 Warrenville Road
Lisle, Illinois 60532-4387
(708) 852-8800